

**University of Strathclyde  
Strathclyde International Business Unit  
Department of Marketing**

**NATIONAL AND ORGANISATIONAL CULTURES  
AND THE INFLUENCES ON CROSS-BORDER  
POST-ACQUISITION MANAGEMENT AND PERFORMANCE**

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**A thesis submitted in accordance with the requirements  
for the degree of Doctor of Philosophy**

**GLASGOW  
2003**

**TO DAD, MOM, LUIS AND TIM**



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## ABSTRACT

This thesis is concerned with the impact of national and organisational cultures on the post-acquisition management process, as applied to the case of the automotive supplier industry. The search for literature on the impact of culture in cross-border mergers and acquisitions (M&As) indicated that despite a plethora of post-acquisition and cultural studies, knowledge on the interactions of national and organisational cultures and their impacts on post-acquisition performance was incomplete.

The main conceptual framework developed was based on three distinct schools of thoughts, strategic management school, the process school and the organisational behavioural school. The researcher perceives national culture and organisational culture as a multi-dimensional construct that interacts between levels. Ultimately, in this study, the researcher implies that national culture and organisational culture are dynamic constructs in the post-acquisition management and success.

The study consists of the case study approach which investigated one American MNE in the automotive supplier industry and its four acquisitions into Europe (Germany, France, and Sweden) during the 1990s. The data collection process was carried out between August 2001 and September 2002 and was divided in three phases: 1) desk research on the company; 2) 27 interviews and 75 returned questionnaires at the four acquired sites in Europe, and 3) 5 interviews and 41 returned questionnaires at the North American and European headquarters. The interviews involved senior managers and employees who were involved in the post-acquisition process.

Analysis of the case studies through pattern-coding and triangulation of data methods showed how the differences and interactions of cultures between the acquirer and its acquired subsidiaries influenced:

- The acquirer's *management technique* (types, timing and communication of post-acquisition changes); which in turn influenced the
- The *acquired's employees behaviour*; which in turn influenced the
- Post-acquisition *success* in the acquired firm.

In addition, the findings seem to suggest that the post-acquisition process consists of very distinguishable sub-phases and these have been identified and included into the main theoretical framework. By charting the sub-phases, it may be possible to anticipate certain behavioural patterns of employees and relevant management solutions for each. The multi-dimensional cultural interface developed from the literature has been supported by the findings of the research. It displayed the complex interactions of national culture and organisational culture on the post-acquisition process. The strength of the influences of the cultural dimensions on each post-acquisition phase is discussed as well as how to deal with them. This multi-dimensional cultural interface has contributed in bridging the gap in the literature that has usually focused on either national culture or organisational culture in M&A studies, but seldom both.

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**PART 1:**

**THESIS OVERVIEW**



# CHAPTER 1: INTRODUCTION

## *Chapter Objectives:*

- To provide a brief background of the cross-border mergers and acquisitions scene
- To introduce the reader to the research topic
- To provide a brief statement of aims and objectives of the research, conceptual framework and context
- To explain how the thesis has been structured and provide a brief overview of the contents and purpose of each chapter

## 1.0 INTRODUCTION

This thesis is concerned with the impact of national and organisational cultures on the post-acquisition management process in the automotive supplier industry. The search for literature on the impact of culture in cross-border mergers and acquisitions (M&As) indicated that despite a plethora of post-acquisition and cultural studies, knowledge on the interactions of national and organisational cultures and their impacts on post-acquisition performance were incomplete.

It appears incomplete because a considerable bulk of the M&As studies focuses only on the impact of organisational culture differences and influences on the M&As process (Datta, 1991), ignoring the national dimension influences. This failure to address the national culture influences has reduced the value of the current literature. Although some recent literature has emerged to address this gap (Morosini, 1998; and Morosini et al., 1998), there is still a much wider gap in the literature that is yet to be filled. In addition, the literature search conducted during the early stages of this thesis revealed that both national and organisational culture concepts embodied in the literature have often *remained separate*. Hence, there seems to be a need for an exploratory qualitative research resulting in the development of an appropriate conceptual approach that deals with the interactions of national and organisational culture influences in managing the cross-border M&As post-acquisition process.

This chapter has been divided into seven sections. The first section introduces the reader to an overview of recent cross-border M&As activity highlighting the sectoral and regional trends during the 1990s. Section two discusses that despite the popularity of cross-border M&As as a corporate strategy for international production, there are many studies reporting a dismal record of post-acquisition performance. The author suggests the possible reasons for this in section three. The fourth section addresses the justification for this research. The author suggests that studying the interactions of cultures in M&As may be the way forward to understand the logic of past failure records. This is followed by a brief statement of the research objectives in section five and the methodology adopted in section six. The final section reviews the structure of this thesis.



## **1.1 RECENT TRENDS: M&As THE POPULAR GLOBALISATION TOOL**

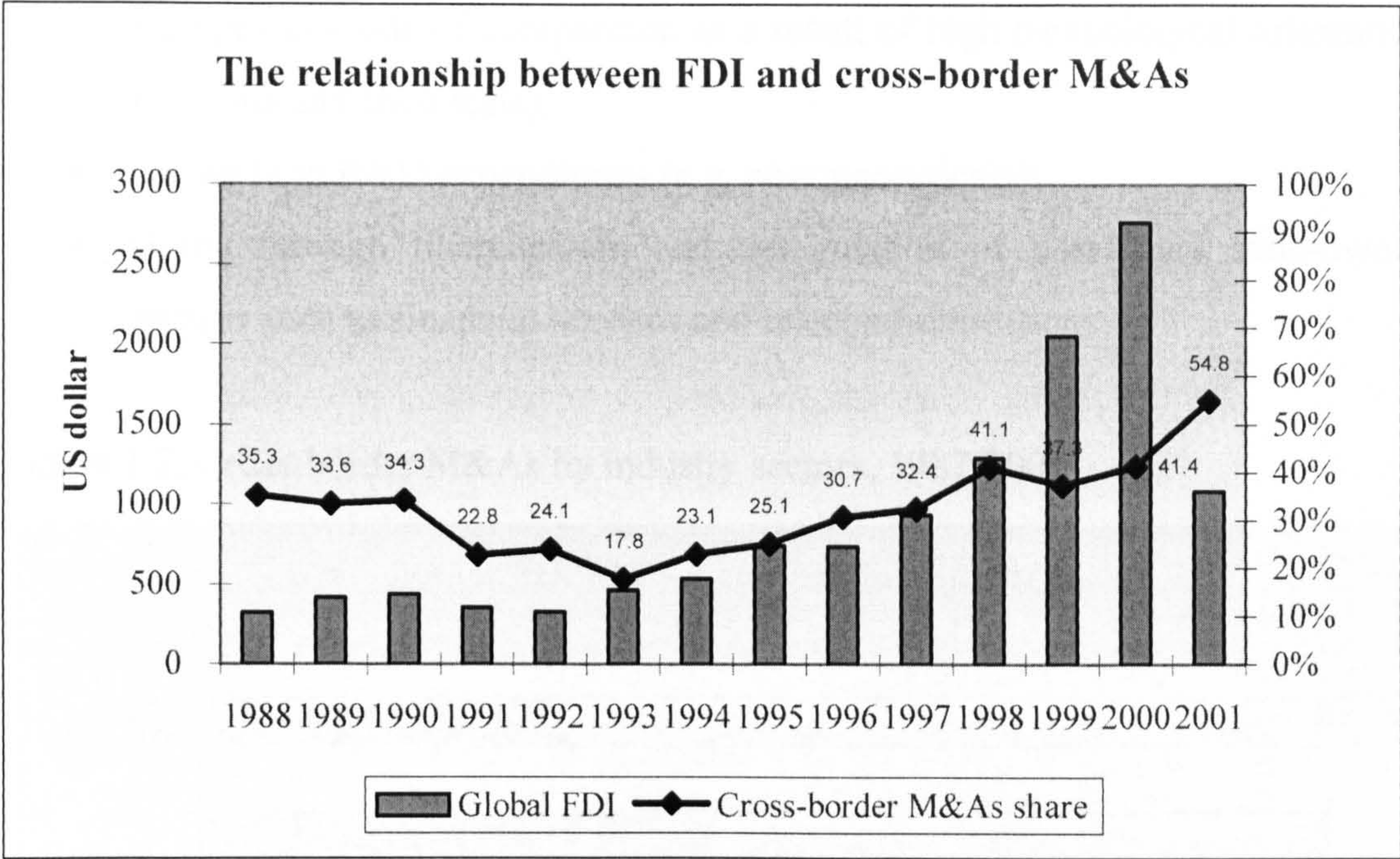
During the 1990s, forces such as the advances in technology, transport and communications, globalisation, and deregulation of industries have caused a shift in the competitive focus of the multinational enterprises (MNEs) from local to regional to global. This, coupled with the accelerating pace of globalisation, has increased the urgency for MNEs to restructure their business activities. Changes in organisational structures, modes of cross-border activity, subsidiary locations etc. have been well-catalogued and significant developments in international business theory have emerged as a result of multinational research (Dunning, 1992; and Caves, 1996).

The most common strategic mechanism for growth or foreign direct investment during this period has been the cross-border merger and acquisition (M&A). In terms of M&As history, the 1990s was the decade where cross-border M&As grew rapidly in all sectors, especially the manufacturing and services sectors, and played a crucial role in globalisation and restructuring of many industries.

As seen in Figure 1.1, cross-border M&As activity peaked in 2000 at USD 1,143.8 billion, which was 41.4% of global foreign direct investments (FDI). M&As in the 1990s were the dominant form of FDI in terms of value. This is supported by a report by UNCTAD (2002) where the decline in FDI value in 2001 was a result of a decline in cross-border M&As. According to the same report, twenty-three out of 26 developed countries experienced a decline in FDI inflows, as companies curtailed their cross-border M&As significantly. This decline in FDI flows in 2001 followed rapid increases during the late 1990s. There was a similar pattern during the late 1980s and early 1990s suggesting that trends are cyclical in nature. This is a reflection of another economic slowdown in major industrialised economies and the consolidation of industries that took place during the 1990s (UNCTAD, 2002).



Figure 1.1: Relationship between cross-border M&As and FDI flows: 1988-2001



Source: Based on UNCTAD World Investment Reports

Also, unlike the 1980s where cross-border M&As often took place between different fields of business or industry, cross-border M&As in the 1990s often involved the same or related industries (UNCTAD, 2000). This reflected the efforts of MNEs to strengthen their global competitiveness in their core business or a desire to reduce competition in increasingly globalised markets.

1.1.1 Sectoral distribution

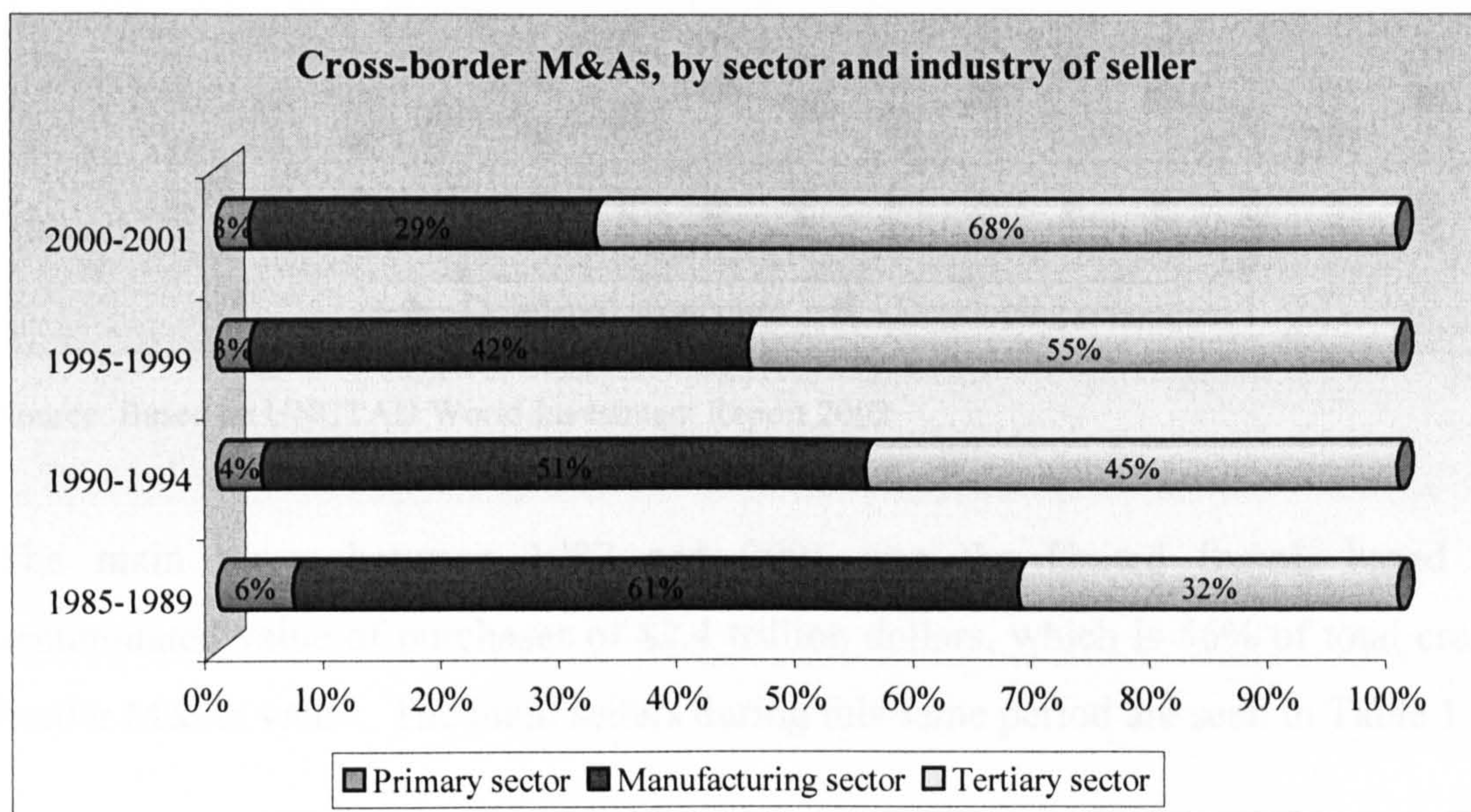
As for the sectoral distribution during the 1990s, cross-border M&As took place across a broad range of sectors such as advanced technology, mature manufacturing industries and services. Until the mid-1990s, cross-border M&As concentrated in the manufacturing sector (Figure 1.2). This sector includes the automobile, food and beverages, chemicals and mining industries. Afterwards, cross-border M&As were prominent in the services (tertiary industry) sector. The high levels of cross-border M&As in the manufacturing and tertiary sectors could be attributed to the following environmental forces:

- Losing comparative advantages;



- Going through over-capacity or low demand (e.g. automobiles and defence); changes in mode of competition as a result of high technological orientation (e.g. oils and chemicals);
- Facing high R&D expenditures (e.g. pharmaceuticals);
- Going through liberalisation and deregulation of previously state-owned sectors such as financial services and telecommunications.

Figure 1.2: Cross-border M&As by industry sectors, 1987-2001



Source: Based on UNCTAD World Investment Report 2002

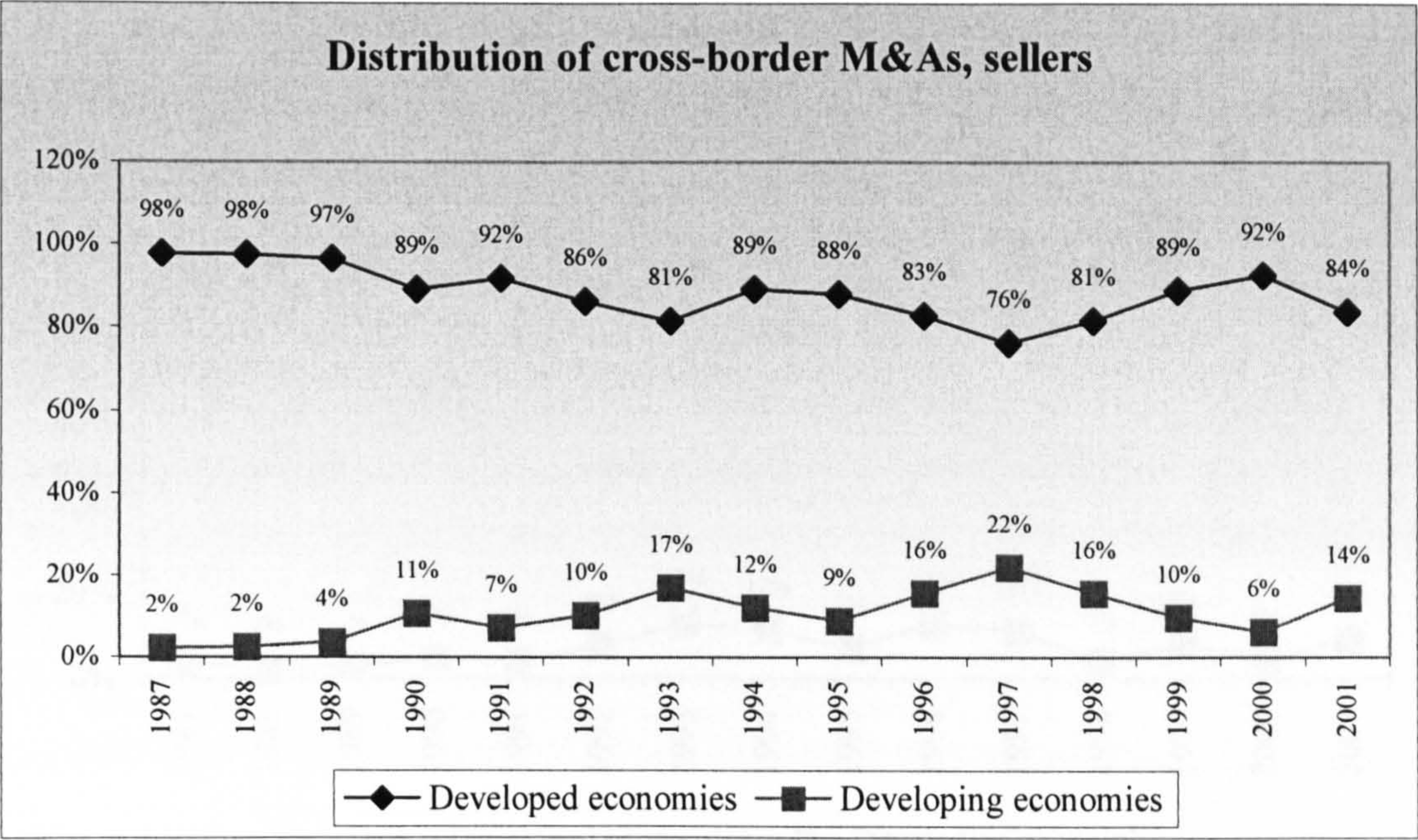
### 1.1.2 Regional distribution

In terms of regional distribution, the developed economies have dominated the scene for both sales and purchases throughout the 1990s (Figures 1.3 and 1.4).

The emergence of ‘mega-deals’ also took place in the 1990s and was mostly conducted by developed economies. Apart from the United States, the European economies such as the UK, Germany, France, and the Netherlands, were among the more aggressive sellers (Table 1.1).



Figure 1.3: Distribution of sellers, 1987-2001



Source: Based on UNCTAD World Investment Report 2002

The main buyer between 1987 and 2001 was the United States, based on accumulated value of purchases of \$2.4 trillion dollars, which is 56% of total cross-border M&As value. The main sellers during this same period are seen in Table 1.1.

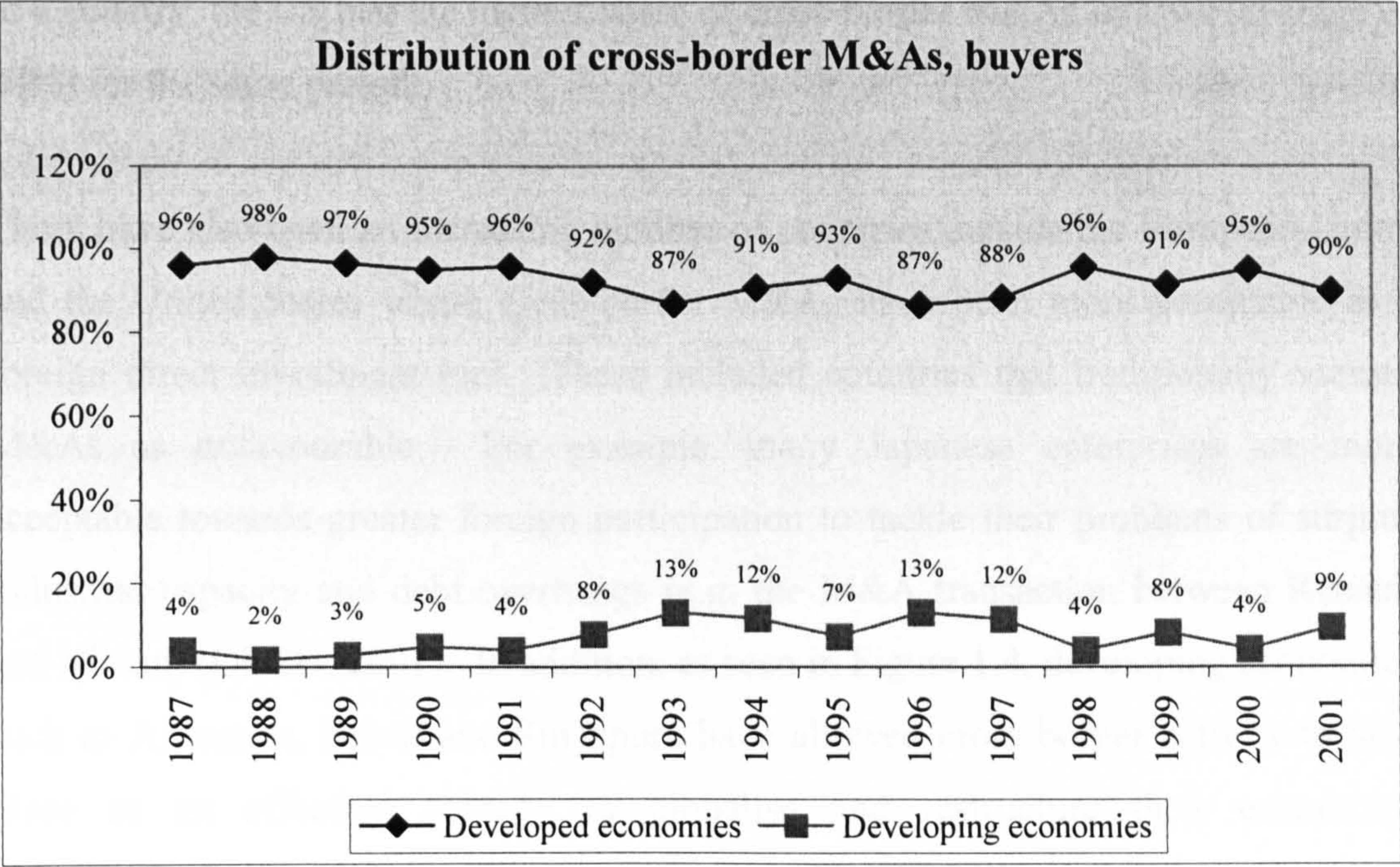
Table 1.1: Main cross-border M&As, of sellers, 1987-2001

	Accumulated value (Billions of dollars)	Percentage of total cross-border sales
United States	1521.69	37.81
United Kingdom	703.03	17.47
Germany	414.08	10.29
France	181.55	4.51
Netherlands	174.16	4.33
Sweden	126.49	3.14

Source: Based on UNCTAD World Investment Report 2002



Figure 1.4: Distribution of buyers, 1987-2001



Source: Based on UNCTAD World Investment Report 2002

Table 1.2: Above USD 1 billion deals, Top ten countries, buyers, 1995-1999

Buyers	Total number of deals	Total value (Billions of dollars)
United States	92	226.78
United Kingdom	42	302.83
Germany	38	156.26
France	31	97.44
Netherlands	31	95.69
Switzerland	17	57.13
Canada	16	52.54
Japan	9	29.37
Australia	8	13.98
Spain	8	28.42

Source: Quah and McDermott (2000), based on KPMG database

The average size of a cross-border M&A in the late 1990s grew to above USD 10 billion, an amount unheard of in the history of M&As (Table 1.2). For example, German’s Hoechst AG’s purchase of Marion Merrill Dow of the US was the largest deal of the year at \$7.1 billion in 1995 and the biggest deal of 1999 was \$69 billion by UK’s Vodafone Group plc acquisition of Airtouch Communications Inc. of the US. The Western European region attracted an average of 38%, the highest level of



cross-border M&A of all regions (mostly in the EU) between 1988-1998. However, as a country, the US had the highest share of cross-border M&As inflows (average of 30%) for the same period.

There have also been an increasing number of countries outside the European Union and the United States where cross-border M&As have been more acceptable as a foreign direct investment tool. These included countries that traditionally viewed M&As as unfavourable. For example, many Japanese enterprises are more acceptable towards greater foreign participation to tackle their problems of surplus industrial capacity and debt overhangs (e.g. the M&A transaction between Renault and Nissan) (OECD, 2001). In addition, as seen in Figure 1.4, developing economies such as Argentina, Brazil and Singapore have allowed cross-border activity to take place as an effective strategy to globalise and restructure their economies (UNCTAD, 2000).

To summarise this section, the 1990s witnessed a tremendous increase in levels of cross-border M&As, especially towards the end of the decade. The US was the most active buyer and the EU region was the most active seller. This was despite the growing studies and widespread perception that most M&As failed to deliver the expected gains set out at the time the deals were announced. There is considerable controversy surrounding the question of post-acquisition performance. A brief overlook of these studies is highlighted in the next section.

## **1.2 DISMAL HISTORY OF M&As PERFORMANCE**

Several measurements have been used over the years to judge acquisition performance: success or failure. These include financial data such as stock market indices, measuring the number of divestments of those companies pursuing a growth strategy and subjective measurements such as participant reaction and third-party assessments (Hubbard, 2001).

One reason for the low success rates could be attributed to the fact that the process of M&As involves combining organisations operating in similar businesses is not an



easy task. It involves two firms trying to achieve objectives such as different types of synergies through larger scale, rationalisation, and transfer of capability or knowledge (Vaara, 1999). However, the achievement of these objectives is often problematic for those involved in the post-acquisition management process, as these arrangements often imply internalisation of competition. This is likely to create various types of difficulties both for the achievement of specific combination benefits and for the normal functioning of a group consisting of previously separate organisations. Furthermore, cross-border M&As are generally more difficult and riskier as generic problems of acquisition can be compounded by national cultures, language differences, political influences and regulatory hurdles (Angwin and Savill, 1997).

Many management surveys on cross-border M&As carried out in the mid-1990s concluded that the value of shares held by owners declined in more than half of the cases examined, while increases in the value of shares followed only a small proportion of all M&As (AT Kearney, 1999; and KPMG, 1999). The literature even suggests that as high as 83% of M&A fail to create shareholder value and 70% of the deals fail to achieve the projected synergies. (See Table 1.3 for more details). This might be a highly projected number. But many other studies claim that as many as 50% of M&As fail, which is still a worrying statistic for any company interested in using M&As as a corporate strategy.

Table 1.3: Some studies in the 1990s: High failure rates of M&As

Failure rate of M&A	Author(s)	
	Domestic M&As	Cross-border M&As
Up to 50%	Porter (1987); and Coopers & Lybrand (1992)	KPMG (1997)
Up to 66%	Magnet (1984); and Lubatkin (1987)	AT Kearney (1999)
Up to 75%	Kitching (1967); Baker et al. (1981); and Lefkoe (1987)	-
Up to 83%	-	KPMG (1999)

Source: Author



Research also suggests that M&As have a negative impact on the economic performance of the new entity (Cartwright and Cooper, 1993; Marks, 1999; and Tetenbaum, 1999).

Although some researchers have pointed to the significance of the period following the initial merger much earlier in success or failure (Davis, 1968; Kitching, 1967 and 1974; and Levinson, 1970), discussion concerning organisational change processes following mergers did not really start before the middle of the 1980s.

This next section looks at evidence in the literature to reveal how M&As affect corporate performance. The empirical studies of the impact of M&As on corporate performance have been broadly classified into two general categories by UNCTAD (2001).

Firstly, is the *finance literature* that comprises of “event studies”, which use changes in share prices to gauge changes in firm value. Secondly, is the *industrial organisation literature* that consists of studies that measure corporate performance mainly by comparing various measures of profitability before and after the transaction.

Table 1.4 highlights the studies of the *finance researchers’* “event studies” method to measure M&As performance. This method generally assumes that stock markets are efficient, meaning that changes in the share prices of the firms involved, after controlling for market movements in general and systematic risk, represent the value of the event.



Table 1.4: Finance studies on M&A performance

Performance measurement tool	Research findings	Author(s)
<i>Shareholder value studies:</i> Share prices before and after M&A	Target firm's shareholders benefit and bidding firm's shareholders generally loose or breakeven	Jensen and Ruback (1980); Mueller (1996); Sirower (1997); and Bild (1998)
	Only one third of shareholder value studies found positive effects	Schenk (2000)
<i>Cross-border vs. domestic M&amp;A:</i> Returns to acquiring shareholders	Positive impact on market value of the bidding firms	Markides and Ittner (1994)
	Higher returns to the acquiring firm involve in cross-border compared to domestic	Morck and Yeung (1991)
	Domestic M&A provide poorer results	Jansen and Körner (2000);
	Experienced wealth reductions in cross-border M&A	Schenk (2000); and Cakici et al. (1990)
<i>Type of M&amp;A:</i> acquiring in related industries	Increases chances of success	Kitching (1967); Montgomery (1987); Singh and Kusewitt (1985); Morck et al. (1991); and AT Kearney (1999)
	Either little or no impact on success	Lubatkin (1987); Shelton (1988); and Lahey and Conn (1990)

Source: Author



Corporate performance is measured by comparing the share prices from before and after an M&A takes place - relative to a relevant control group. Evidence from a large number of articles analysing short-term stock reactions to merger announcements indicates that a target firm's shareholders benefit, and a bidding firm's shareholders generally lose or break even. Only about one-third of the published shareholder value studies were able to find positive effects for the bidding firm (UNCTAD, 2001). Other studies have noted that the rates of return earned on common stock tend to deteriorate when the period after the merger is extended to one year or more. Moreover, one survey of studies covering different periods suggested that returns going to the acquirer deteriorated in the 1980s, as compared with the preceding decades.

The results from various event studies are inconclusive with regard to the factors influencing the outcome of M&As. Some researchers have noted that the chances of a positive impact on performance increases if the firms involved are in related industries, while others have reported the opposite conclusion. There seems to be a neglect of studying the performance of other types of M&As such as unrelated, vertical or even conglomerate M&As.

As for the *industrial organisational researchers*, they tend to measure performance of M&As relative to firms relying on internal growth (Dickerson et al., 1997). See Table 1.5 for more details of the studies. The most exhaustive study of post-merger performance, covering almost 6,000 M&As by 471 corporations in the United States and 900 divestitures, again found poor financial results from M&As (Ravenscraft and Scherer, 1987).

Table 1.5: Industrial organisation studies on M&A performance

Performance measurement tool	Research findings	Author(s)
<i>Size of target</i>	Either lifts the performance of an unproductive large unit or supply resources needed to leverage the strength of a highly productive small unit	Caves (1998)
<i>Type of M&amp;A</i>	Conglomerate M&A provide more favourable results than related M&As	Mueller (1969, 1995)
<i>Cross-border M&amp;A vs. domestic</i>	Large cultural differences between bidder and target led to positive sales growth	Morosini et al (1998)
<i>Profitability of assets of acquirer</i>	Not significantly different from that of firms that did not engage in M&A activity	Singh (1975)
	Acquiring firm do not earn significantly higher return than the industry average	Bild (1998)
	Poor financial results	Ravenscraft and Scherer (1987)
<i>Ownership changes</i>	Ownership changes led to positive impact on productivity of the acquired units	Baldwin (1995)
	Foreign ownership led to substantial increase in productivity relative to industry average	Modén (1998)

Source: Author



There is also evidence on how the target companies, or even target plants, are affected by takeovers. Although, yet again, these studies have mixed results, ownership changes have been noted to exert positive impacts on the productivity of the acquired units (Lichtenberg and Siegel, 1987; and Lichtenberg, 1992). For example, Canadian firms that were taken over in the 1970s achieved higher productivity increases than those that did not experience a change in ownership (Baldwin, 1995). In addition, according to Caves (1998), the United States data from the 1960s to the early 1980s indicate that productivity performance may be related to the size of the target. It appears that acquisitions can either lift the performance of an unproductive large unit or supply resources needed to leverage the strength of a highly productive small one (Caves, 1998, p. 162).

These conclusions are partly supported by a Swedish study of ownership changes undertaken during 1980-1994, which distinguished between cross-border and domestic M&As (Modén, 1998). The study found that, prior to a takeover, average labour productivity of the target firms of both domestic and foreign acquirers was lagging behind the industry average. After an acquisition, however, firms taken over by foreign investors showed a substantial increase in labour productivity relative to the industry average, while productivity in domestically acquired firms stayed about the same, or declined somewhat. In addition, compared with both the industry average and with the acquired firms in domestic takeovers, foreign acquisitions developed more favourably in terms of total factor productivity, employment and market shares.

As seen, there is a seemingly endless debate in the literature on whether M&As create value at all. The inconclusiveness of the literature is due to the different time horizons of the study, the different tools of measurements used, different nationalities of acquirers, and different research agenda of the studies. However, most studies conclude that M&As fail to live up to the initial performance expectations expressed at the time of the deal. They do not increase shareholder value, productivity, or sales growth for the acquiring firm.

Despite these results, M&A has remained the most popular globalisation tool for MNEs. So, the questions that remain are: why is the failure rate so high and why do they fail to live up to the acquirer's expectations?

### 1.3 POSSIBLE REASONS FOR DISMAL M&A RECORD

According to Cray and Mallory (1998), the reasons for the difficulty involved is that M&As require the integration of the purchased unit into the firm, strategic reorientation and eventual blending of two organisational cultures. An MNE is made up of routines and repertoires and are often dependent on its unique institutional and cultural environment, and are therefore difficult to replicate in an M&A situation (Barney, 1986).

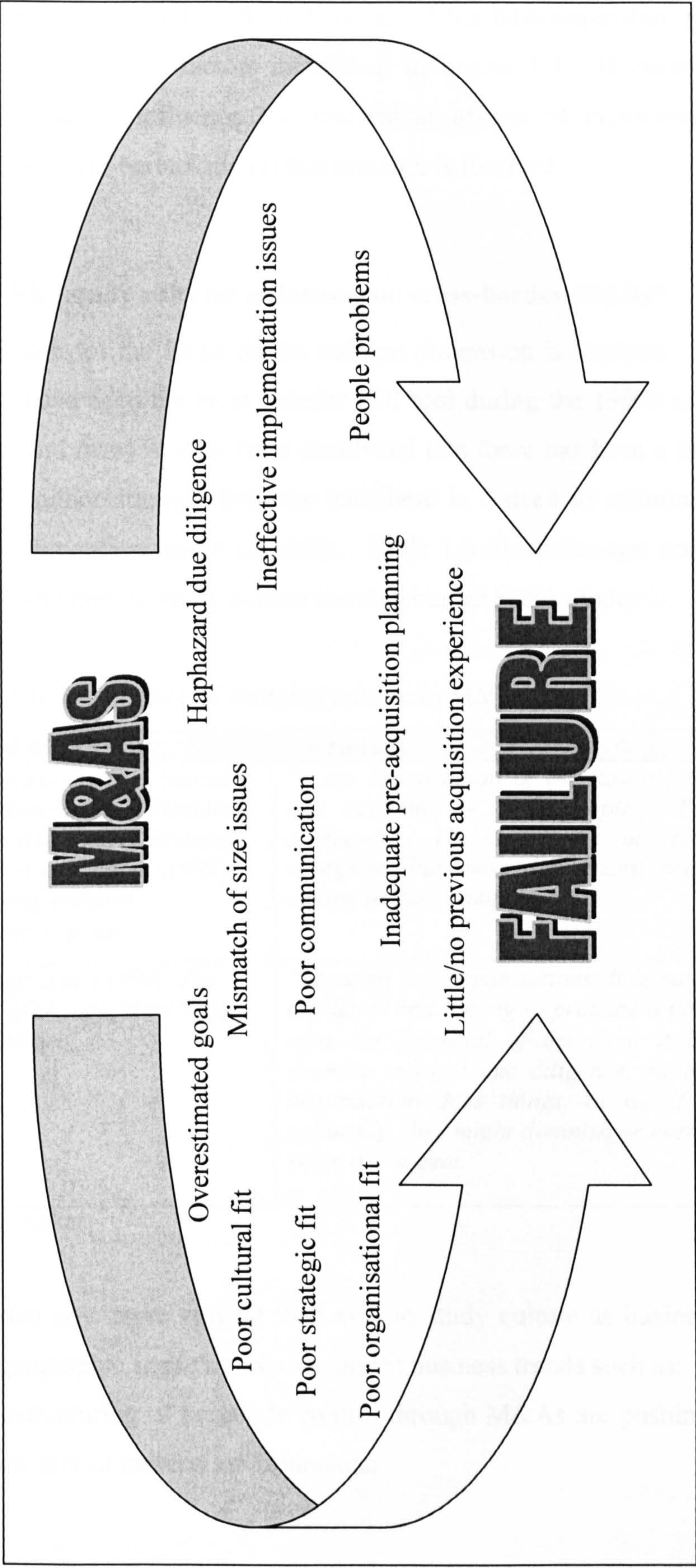
In addition, many studies over the years have found that acquisition success or failure focused on two main issues:

- 1) *Process issues* such as implementation, poor communication, insufficient planning or people problems; and
- 2) *Fit issues* such as size, culture or strategy, or little previous M&As experience.

Figure 1.5 elaborates on these issues and draws a clear conclusion. That is, *it is easier to strike a deal than to execute the deal*. The task is even more exigent if the acquired company is located overseas, as it has to deal with a very different national culture and other environmental factors.



Figure 1.5: Factors contributing to M&A failure: Process and fit issues



Source: Based on works from Jemison and Sitkin (1986); Davy et al (1989); Haspeslagh and Jemison (1991); Coopers & Lybrand (1992); Cartwright and Cooper (1992); and Habeck, Kroger and Tram (2000).



1.4 JUSTIFICATION FOR RESEARCH

This thesis concentrates on ‘soft’ issues of the post-acquisition process such as the cultural and people factors mentioned in Figure 1.7. It examines how differing cultural factors influence the integration efforts of cross-border M&As. The justification for embarking on this research is fourfold.

1.4.1 Why study cultural influences on cross-border M&As?

The reason for the focus on the cultural dimension is obvious. Since, cross-border M&As have been the most popular FDI tool during the 1990s as seen in Figure 1.1 earlier, and many studies have concluded that there has been a high failure rate, the current author strongly believes that there is a need to examine the influences of culture dimensions more carefully. Table 1.6 illustrates two quotes that succinctly sum up the need to study culture in cross-border M&As today.

Table 1.6: Importance of studying culture in M&As

Quoted from	On culture
J.T. Battenberg III, Chairman of the Board, CEO, President, Delphi Automotive Systems. In Harris and Moran (1999), <i>Managing cultural differences</i> , p. xii	<i>“...the organisation of the future is beyond technologies and machines – it is people. People with cultural differences. The clever and successful organisation will recognize that these differences, properly managed, are among its core competencies.”</i>
P. Senge et al. (1999), <i>The dance of change</i> , New York: Doubleday	<i>“Merging two organisations, it is said, is like mating two elephants and hoping to produce a gazelle....while looking after the financial of the deal, it is also important to exercise cultural due diligence: examining the way each organisation does things, to see if, when they net out culturally, they might diminish or even negate the apparent value of the deal.”</i>

Source: Author

It is also now more exigent than ever to study culture as businesses are increasing their geographic scope as seen in current business trends such as:

- Restructuring of corporate control through M&As are pushing companies into a new mix of cultural environments;



- Globalisation has introduced different national and regional behaviour in a company's environment; and
- Outsourcing and relocation of production has implied the need to build relationships with various independent business entities.

These trends have created the urgency for managers to understand how culture affects multinational corporations and performance. It is especially important when trying to merge two different national and corporate cultures when usually the acquired firm will resist or show hostility to the acquiring firm's practices.

#### **1.4.2 Why study national culture differences and influences?**

The concerns about cultural distance in the acquisition literature have been based on identifying corporate culture differences with little reference to national culture (Datta, 1991). In addition, the importance of cultural fit has been investigated for M&As, though more often in terms of organisational culture than national culture. Datta (1991), Chatterjee et al. (1992) and among other studies have focused on M&As involving firms from a single national culture. Therefore, it can be assumed if a study looks at more than one national culture, the integration process would reflect higher levels of intensity due to wider cultural differences.

The literature has recently shifted focus to suggest that national culture is also relevant to cross-border acquisition performance. Morosini (1998) first highlighted the importance of the role of national cultural distance on performance. This view is supported by Morosini et al. (1998) who claimed that companies that acquire in culturally distant countries are able to perform well relative to acquisitions in culturally close countries. This goes against previous research conducted in this area, which is, the higher the cultural distance the higher the degree of conflict between the firms (Jemison and Sitkin, 1986) and the more traditional pattern of internationalisation proposed by theorists (Johanson and Vahlne, 1977).

In the context of cross-border M&As, national cultural distance represents distance in the norms, routines and repertoires for organisational design, new product



development, and other aspects of management that are found in the acquirer and the target countries of origin (Kogut and Singh, 1988). Specific routines and repertoires have been shown to be critical to post-acquisition performance, and to vary significantly across countries in direct association with the national cultural distance between them (Hofstede, 1980; and Jemison and Sitkin, 1986).

#### **1.4.3 Why embody both national and organisational cultures in M&As studies?**

Both national and organisational culture concepts embodied in the literature have often *remained separate*. In order to fully understand cross-border M&As, identifying and managing the interactions of organisational cultural and national cultural differences in the post-acquisition process are necessary.

The author believes that the key to post-acquisition management is managing cultural differences through understanding the interactions of the national and organisational culture and its influences on the post-acquisition process. These include managing employee expectations - through adequate planning, proper communication to employees about the future, and then implementing the post-acquisition changes.

#### **1.4.4 Why study the actual mechanisms that affect post-acquisition behaviour and performance?**

Most cross-national studies fail to identify the *actual mechanisms* by which culture affects behaviour. The literature describes how differences in corporate cultures have caused conflict and in cases caused failures in acquisitions. However, as far as the researcher knows, an understanding of the mechanisms - the individual *mechanisms* that affect integration behaviour and ultimately the acquisition performance - is still rather weak. For example, culture may influence the criteria managers use to judge their own performance, and indirectly through the mechanisms set up to manage the cross-border M&As.

It is crucial that the interactions between national and organisational culture are identified, as understanding the interactions will help any company to better plan and



integrate ‘soft factors’ into the strategy when foraging into new geographical markets. As Cray and Mallory (1998) emphasise the problems of integration across geographic distance and cultural diversity will become prominent and more intricate as organisations grow to reflect the larger number of countries with developed markets.

## 1.5 RESEARCH AIM, OBJECTIVES AND QUESTIONS

**The aim of this research is:**

*To study the interactions of national and organisational cultures during the cross-border post-acquisition process with the intention of identifying the relevant factors that influence post-acquisition behaviour and performance.*

In other words, the research problem is to explain, “what happens when management *and* employees from acquirer and the acquired company begin to interact with each other – are forced to work with each other as part of the same organisation?”

The research objectives, stated explicitly in Chapter 4, are concerned with the identification of the interactions of national and organisational cultures and ascertain their importance in influencing post-acquisition changes, employee behaviour and performance during the post-acquisition process. In addition to an examination of these cultural influences on the process, the study examines the post-acquisition process over a period of eight to twelve years. These research objectives are broken down into research questions, listed in Chapter 4, which determine the structure of the data analysis and the presentation of the results.

*This research is exploratory in nature with a view to theoretical development and managerial practice. Therefore, it presents the research problem as a series of open questions rather than hypotheses.*

## 1.6 CASE STUDY APPROACH

The case study approach is particularly useful when a researcher wants to investigate a contemporary phenomenon within its real-life context (Yin, 1994). Therefore, this



research methodology consisted of the case study approach that was divided in three phases over a period of 13 months: 1) desk research on the company; 2) interviews and questionnaire distribution at the various acquired sites; and 3) interviews and questionnaire distribution at North American headquarters.

The author selected a US acquirer because, as seen in an earlier section of this chapter, the US as a country was the largest M&As buyer during the 1990s. Also, the M&As cases selected for study involved the main M&As sellers identified earlier; these include Germany, France and Sweden. By studying the largest buyer and top sellers, findings and implications from this study can be more or less generalised to other similar M&As involving the same countries.

In total, this study looked at four acquisitions. The American acquirer and its four European M&As profiled in this thesis are real. Their names have been changed in order to ensure their anonymity. In addition, individuals interviewed in the case studies, while real people, are referred to with their positions in the company; to ensure they remain anonymous. Table 1.7 provides the acronyms used and a brief background for each company involved in this research.

The primary instrument for data collection was in-depth interviewing with senior managers and key employees from the acquirer and the acquired companies. This process allowed the author to access both perspectives of the post-acquisition process. In order to obtain richness in the data, organisation-wide interviews with the senior managers, functional managers and supervisors who were involved in the M&As were conducted.



Table 1.7: Case study participants

Year of foundation	Nationality	Acquirer's name	Type of business
Early 20 <sup>th</sup> century	American	First Automotive	Automotive electronics

Year of foundation	Year of M&A	Nationality	Acquired company's name	Product line acquired	Type of sale	Classification of M&A	Integration strategy	Degree of acquisition success*
1980	1990	German	German Security	Body & Security assembly manufacturing	Agreed public bid	Domain strengthening	Full absorption	3 <sup>rd</sup> most successful
1976	1993	French	French Security	Security assembly manufacturing	Agreed public bid	Domain strengthening	Full absorption	Least successful
1982	1994	Swedish	Swedish Consultancy	Automotive service - consultancy	Subsidiary sale	Domain exploration	Preservation	2 <sup>nd</sup> most successful
1990	1995	German	German Antenna	Antenna & mobile multimedia assembly manufacturing	Auction	Domain extension	Interdependence moving towards absorption	Most successful

Source: Author

\* Success measures are based on

- Interviewees' perceptions, annual reports of sales, profits, employee growth, and First Automotive's global manufacturing metrics applied to all its manufacturing facilities worldwide



Three terms have been used to differentiate employee groups that were interviewed:

- i) '*Strategists*' were the senior directors who were 'in charge' of the acquisition.
- ii) '*Implementers*' were the top to middle level managers responsible for implementing the directives of the strategists in a day-to-day business environment.
- iii) '*Recipients*' were the employees who received the directives and acted upon them.

Thirty-two interviews were conducted. These included five strategists, 16 implementers and 11 receivers from a cross-section of employees ranging from the CEO to the hourly paid. The interviewees came from the finance, human resource, information technology, manufacturing, and R&D departments. This variety of job responsibilities allowed the researcher to gain a better perspective of the cultural differences accounted in various departments and at various levels of the hierarchy and how they were managed.

Every interview was recorded, transcribed and analysed in a structured manner. The objective was to *capture the perceptions* of key employees and analyse the managerial and communicative events of the post-acquisition process.

The secondary instrument used was a short survey that addressed nationality-specific topics identified in the multi-dimensional cultural framework (Chapter 4). A total of 116 questionnaires were used in the tabulation and analysis, a 46.4% response rate. The data from the questionnaire allowed the researcher to identify instances of agreement and disagreement between the qualitative interviews and the quantitative data sources concerning national cultures for the four countries involved.

Other sources such as documentary evidence and personal observations made during site visits also assisted in collecting and analysing the data.

### **1.6.1 Method of Analysis**

The analysis of the data collected was conducted in two phases: 1) case study analysis through QSR Nudist; and 2) statistical analysis using the SPSS version 11.

The interviews were coded in the QSR Nudist software and the researcher applied the rules of “pattern matching” and comparative methods to draw conclusions (Yin, 1987, 1994). To draw further in-depth inferences, the complex inter-dependent and interactive relationships of the variables were studied for each acquisition case, the methods were supplemented by content analysis and explanation-building modes of analysis. In order to improve the quality of the data collected from interviews, archival records and documentation of the company cases were collected to crosscheck factors such as performance of the company cases.

Descriptive methods were used to analyse the questionnaires in SPSS software. The measures of central tendency and variability were adopted in this study.

### **1.6.2 Limitations of Research**

There were two main limitations in the exploration of this research: reliance on case study approach and historical nature of the study.

- *Reliance on case study approach*

This research relies heavily on the case study approach. Since case studies do not rely on statistical analyses of aggregate data, no set of cases, irrespective of its size, can be reasonably generalised to a larger universe (Yin, 1987).

In other words, this approach only permits one to generalise a particular set of empirical evidence on the interactions of national and organisational cultures on cross-border M&As within the context of the research problem focused in this study.



- *Historical event: Difficulty of tracking involved personnel*

Since, it was difficult to interview all employees that were involved in the M&A that took place in the 1990s, there might be an issue of survivor bias. This is due to the natural turnover over the years and many employees have left the acquired company. But, the author managed to interview all remaining employees in the acquiring and acquired companies and gathered their ‘stories’ of the post-acquisition process.

Although the above limitations might appear to be serious, the source of it is attributable to the type of methodology chosen. Other research studies that used the case study approach encountered similar limitations. However, in this study, the researcher overcame these limitations through the triangulation of the primary data. This was achieved through a triangulation of the 32 interviews with archived documents of the M&A, personal observations made during site visits and the survey analysis of 116 returned questionnaires. Therefore, there are valuable contributions of this research to academic world and the industry.

## **1.7 STRUCTURE OF THESIS**

This thesis has been divided into six parts with 12 chapters (see Figure 1.6).

**Part 1** consists of this first chapter that provided an overview of the acquisition landscape of the disappointing history of cross-border M&A performance, highlighted the importance of managing culture in the post-acquisition process and provided reasons why this topic was chosen.

**Part 2** of the thesis consists of three chapters that look at the theoretical perspectives of the research topic drawing from a literature review.

*Chapter 2* reviews the M&A literature in terms of definition, drivers and motives for M&A and the four schools of thought in detail. It covers the mergers and acquisition process in detail – defining mergers and acquisitions, identifying the motivations behind this growth strategy, and also highlighting the strengths and weaknesses in the current mergers and acquisitions literature.

*Chapter 3* looks at the culture literature in general and studies of culture in M&A. It looks particularly at organisational culture and how it has been a focus in previous studies and also stipulates the impact of national organisational cultures interactions during the M&A.

**Part 3** consists of *Chapter 4 and 5*, the conceptual development and methodology chapters.

*Chapter 4* is the most important chapter of the thesis. In this chapter the conceptual approach to the research problem is developed, the underlying theory identified, and the constructs explained. It discusses explicitly the research objectives and questions and the assumptions made for the overall post-acquisition management and the multi-dimensional cultural frameworks adopted in this study.

*Chapter 5* identifies the choice of industry focus and the justification for it. It describes the multiple sources of methods adopted in this research and the justification for them. It also provides the reader an understanding of how the case data was analysed and structured.

**Part 4** is the findings and analysis of the fieldwork that was carried out in Europe. It consists of six chapters.

*Chapter 6* introduces the chosen industry background, the acquiring company's history, business, corporate culture and the American culture.

*Chapters 7, 8, 9, and 10* provide detailed findings and analysis of each European acquisition conducted by the American automotive supplier into Germany, France and Sweden.



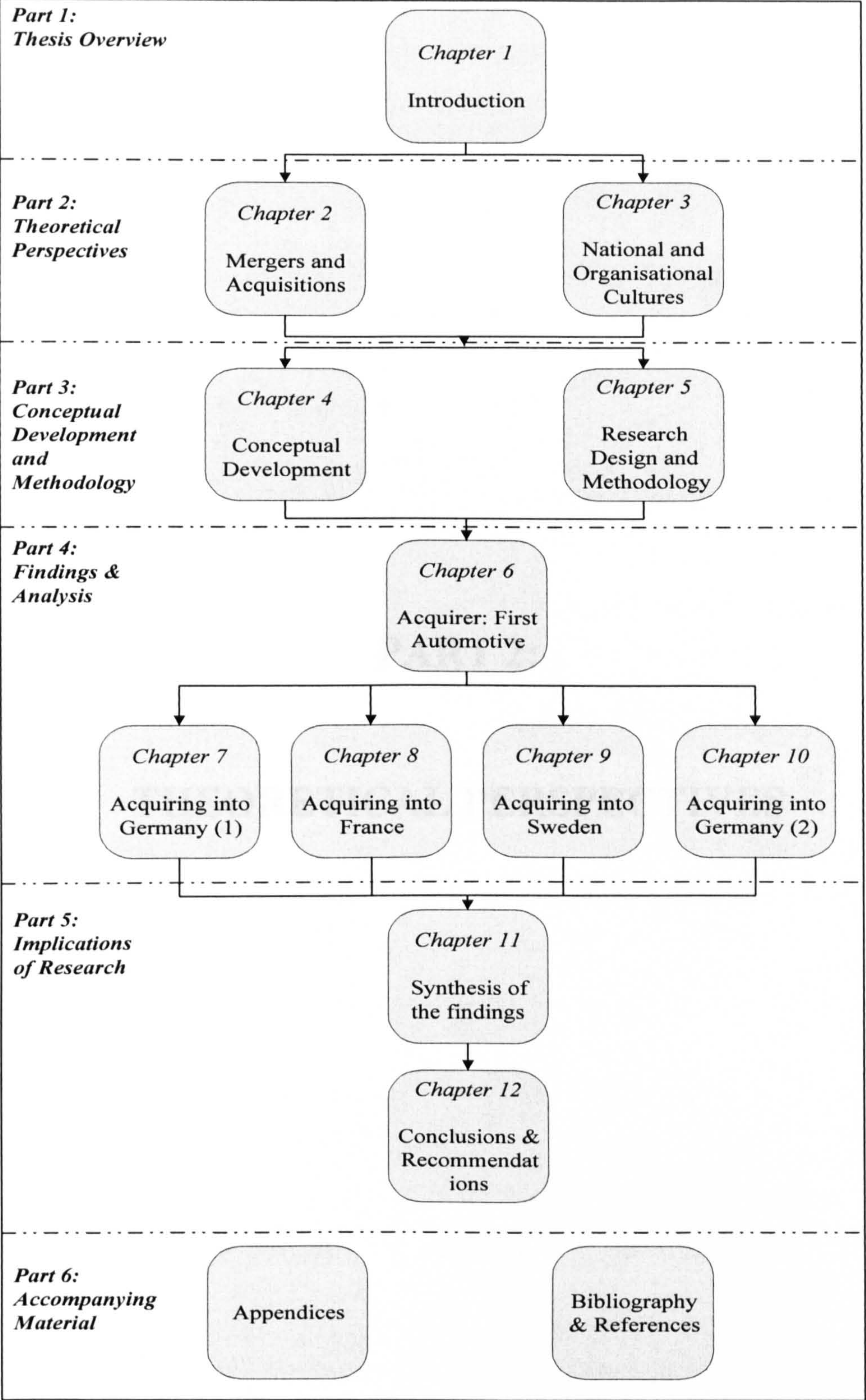
**Part 5** discusses the implications of this research and consists of two chapters.

*Chapter 11* synthesises the findings of Chapters 6 to 10. The objective is to answer the research questions and make sure that the research objectives have been fulfilled. It also puts forward a managerial framework supported by the findings of this research on how to manage the cultural differences, varying levels of resistance at the various post-acquisition phases. During each phase, the author discusses the mindsets of employees: on why they act the way they do, and suggests that effective and efficient communication is the key to managing the whole post-acquisition process successfully.

*Chapter 12* draws conclusions of the research and highlights its importance to the academic world and also present the implications to practitioners. It further provides a number of research propositions for future research and the limitations of this study.

**Part 6** consists of the accompanying material for this thesis that includes: appendices, bibliography and references.

Figure 1.6: Thesis structure





## **PART 2:**

# **THEORETICAL PERSPECTIVES**

## CHAPTER 2: MERGERS AND ACQUISITIONS

### *Chapter Objectives:*

- To present the basic conception of mergers and acquisitions: definition; classifications; motives and driving forces behind them
- To examine and evaluate the different schools of thought in the M&As literature:
  - Capital markets school
  - Strategic management school
  - Organisational behaviour school
  - Process view school
- To identify weaknesses in the current literature and suggest areas for further research



## **2.0 INTRODUCTION**

This is the first of two chapters of the literature review. This chapter reviews the M&A literature and the next chapter reviews the culture literature. In the M&A literature, three major issues recur in the discussion of acquisitions: value creation, post-acquisition management, and post-acquisition performance that form the four schools of thought (Haspeslagh and Jemison, 1991; Vaara, 1999; and Child et al., 2001;). Prior to discussing this, it is necessary to understand the definition of an M&A, its classifications and motives.

This chapter has been divided into two sections. The first section introduces the reader to the basic conceptions of M&As such as the definition, the driving forces and motives and the classifications of M&As. The second section provides an overview of the M&As literature dividing it into four schools of thought: the capital markets school, strategic management school, organisational behaviour school and the process school. It will also identify the strengths and weaknesses in each school and suggest possible areas for future studies.

## **2.1 BASIC CONCEPTIONS ON M&A**

In order to understand the M&As phenomenon highlighted in Chapter 1, it is necessary to understand the definition, the types of M&As, the drivers behind the activity, and the motivations for each type of M&A.

### ***2.1.1 Definition of M&A***

There are two main types of corporate takeovers: mergers or acquisitions, which can be either friendly or hostile. The differences in definition are seen in Table 2.1. M&As occur when operating enterprises merge with (merger) or acquire control of (acquisition) the whole or a part of the business of other enterprises (OECD, 2001). Cross-border M&As are deals that are undertaken between firms of different national origin or home countries.



Table 2.1: Definitions of the different corporate takeovers

Type of corporate takeover	Definition
<b>Merger</b> Examples: <ul style="list-style-type: none"><li>▪ Glaxo Wellcome &amp; SmithKline Beecham to create <i>GlaxoSmithKline</i> in 2000</li><li>▪ Daimler-Benz AG &amp; Chrysler Corporation to create <i>Daimler Chrysler</i> in 1998</li><li>▪ Grand Metropolitan &amp; Guinness to create <i>Diageo</i> in 1997</li></ul>	<ul style="list-style-type: none"><li>▪ Mergers legally defined involve similar-sized entities where both companies' shares are exchanged for shares in a new corporation</li><li>▪ Little cash element in the transaction</li><li>▪ Involve two partners of relatively equal size and power and a genuine attempt is made to meld the two entities into a culturally new one</li><li>▪ In reality one partner is usually controlling the other</li><li>▪ Less than 3% of M&amp;As are mergers</li></ul>
<b>Acquisition</b> Examples: <ul style="list-style-type: none"><li>▪ Easyjet's £374 million acquisition of GO in 2002</li><li>▪ Vodafone's acquisition of AirTouch Communication Inc in 1999</li><li>▪ Nestlé's \$3billion acquisition of Carnation in 1985</li></ul>	<ul style="list-style-type: none"><li>▪ Evident winners and losers, where power is not negotiable</li><li>▪ Bidder negotiates directly with the target company's board of directors</li><li>▪ The purchase can be based on a consideration of cash, paper or both</li><li>▪ Friendly (agreed) bids and hostile bids</li></ul>

Source: Based on UNCTAD (2000) World Investment Report; and Hubbard (2001)

The normal definitions of FDI apply to entry through cross-border M&As. The country of the acquirer is the “home country” and the country of the target or acquired firm is the “host country”. In mergers, the headquarters of the new firm can be in both countries (e.g. the Netherlands and the United Kingdom, in the case of Royal Dutch/Shell or Unilever) or in one country (e.g. United Kingdom, in the case of BP-Amoco; Germany, in the case of Daimler Chrysler). There are also some cases where the headquarters are located in a third country [e.g. United Kingdom in the case of Pharmacia (Sweden) and Upjohn (United States)] (UNCTAD, 2000).

According to UNCTAD (2000), acquisitions can be full or outright (100 per cent), majority (foreign interest of 51 to 99 per cent), or minority (foreign interest of 10 to 49 per cent). In the case of full (100 per cent) acquisitions, deals may also be referred to as (statutory) mergers, though there is a distinction between these two



types. The key difference between them lies in the fact that a new legal entity is established in the statutory mergers, but not in full acquisitions.

UNCTAD (2000) data on M&As show that acquisitions dominate the scene. For example, looking at deals that took place in the 1990s, full or outright (100 per cent) acquisition accounted for more than half of all cross-border M&As. In developing countries, about one-third of acquisitions by foreign firms were minority (10-49 per cent) acquisitions, compared to less than one-fifth in developed countries. The differences in equity share of foreign firms largely reflect the nature of government regulations as well as corporate strategies.

*Since the number of “real” mergers is so low (less than 3 per cent according to UNCTAD, 2000), the current author thinks it makes more sense to study full or outright acquisitions. Therefore, in this thesis when referring to the term M&As, the author means outright acquisitions.*

**2.1.2 Classifications of M&As**

There are different classifications of M&As. The four classifications of M&As often found in the literature are 1) horizontal; 2) vertical; 3) concentric and 4) conglomerate. These four types of M&As have been further categorized into three broad strategies identified by Haspeslagh and Jemison (1991). These include the domain strengthening, domain extension and domain exploration strategies. These classifications are seen in Table 2.2. The table highlights the differences in definitions of the four types of M&As and examples of industries that they tend to take place in.



Table 2.2: Classification of types of cross-border M&As

H&J's Strategy	Domain strengthening	Domain extension		Domain exploration
Type of M&A	Horizontal	Vertical	Concentric	Conglomerate
Definition	<ul style="list-style-type: none"><li>▪ Deals between competing firms in the same industry</li></ul>	<ul style="list-style-type: none"><li>▪ Deals between firms in client-supplier or buyer-seller relationships</li></ul>	<ul style="list-style-type: none"><li>▪ Product extension or market extension</li><li>▪ Share either similar customers or technology</li></ul>	<ul style="list-style-type: none"><li>▪ Deals between unrelated companies</li></ul>
Example of industries that prefer this type of M&A	<ul style="list-style-type: none"><li>▪ Pharmaceutical</li><li>▪ Automotive</li><li>▪ Petroleum</li><li>▪ Utilities</li><li>▪ Services</li></ul>	<ul style="list-style-type: none"><li>▪ Financial</li><li>▪ Electronics</li><li>▪ Automotive</li></ul>	<ul style="list-style-type: none"><li>▪ Any</li></ul>	<ul style="list-style-type: none"><li>▪ Any</li></ul>

Sources: Author, based on Hopkins (1983); Smith (1985); Root (1994); and Haspeslagh and Jemison (1991).

**Domain strengthening strategy**

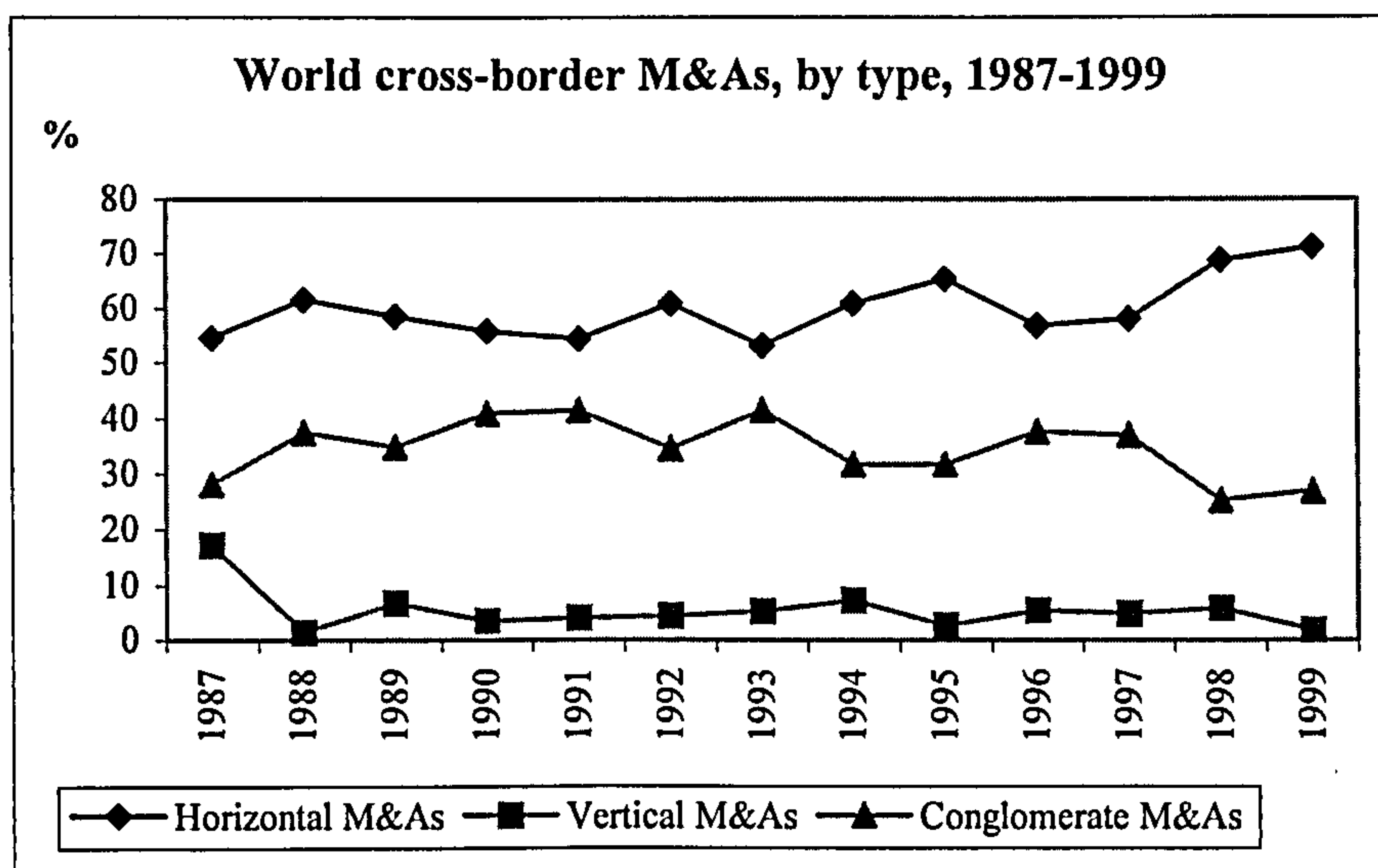
This strategy consists of *horizontal M&As* where the firm deepens its presence in an existing domain through consolidation of resources. The merging firms aim to achieve synergies (the value of their combined assets exceeds the sum of their assets taken separately) and greater market power. Horizontal M&As are currently the most popular type of strategy among multinationals. As seen in the Figure 2.1, 70 per cent of cross-border M&A value in 1999 was horizontal compared to 59 per cent in 1989. This growth of horizontal M&A has resulted in a dominance of horizontal studies in the literature, ignoring the other types of deals.

This type of M&A has grown rapidly recently because of global restructuring of many industries in response to advancing technological changes and market liberalisation. In such M&A, there is a very high possibility of intense cultural clashes as close interaction between the merging firms is required for successful post-acquisition implementation (Nahavandi and Malekzadeh, 1988, refer to Table 2.3). Due to this close interaction needed between firms, implementation time for



horizontal M&A is the longest compared to the other types. It can take up to seven years to achieve successful integration (Nahavandi and Malekzadeh, 1988). However, a limitation in their study is that it did not explore the national cultural (NC) influences during the post-acquisition process.

Figure 2.1: World cross-border M&A, by type, 1987-1999 (percentage of total value)



Source: UNCTAD (2000)

### Domain extension strategy

This strategy consists of *vertical and concentric M&As* and it involves the broadening of a domain in terms of products, markets or capabilities. This type of M&A typically seeks to reduce uncertainty and transaction costs as regards forward and backward linkages in the production chain, and to benefit from economies of scope. *Vertical acquisitions* occur when the acquired firm becomes a supplier or customer of the acquiring firm. It has been increasing in numbers since the mid-1990s; however, the total of this type of M&A has always remained below 10 per cent (Figure 2.1). It is a popular approach in industries with high promise of growth (Smith, 1985). A good example of such an M&A is between automotive parts and components makers and their clients.

In such M&As, fewer cultural clashes are encountered unless close interaction is enforced between the firms (Nahavandi and Malekzadeh, 1988). According to these

authors, the implementation of vertical M&As is relatively quick if there is minimal interaction between the acquirer and the acquired firm; however, there is a danger of forcing close interaction in such deals because both firms serve in the same industry.

*A concentric M&A* occurs when the motives are to diversify, improve efficiency, eliminate competition, defence tactic, etc. This kind of acquisition is also known as product extension or market extension. It takes place when the acquired firm has the same market but different technology, or the same technology but different market. Some cultural problems are anticipated in such M&As because joint teams are formed to solve problems that arise during the post-acquisition process (Nahavandi and Malekzadeh, 1988). Nevertheless, implementation time for this type of M&A is still relatively quick, within one to two years from the time the acquisition deal is signed.

### **Domain exploration strategy**

The third category of M&A, domain exploration strategy, according to Haspeslagh and Jemison (1991) consists of conglomerate M&As. These M&As enter into new areas of businesses.

*A conglomerate M&A* takes place when a company acquires or merges in order to diversify risk and deepen economies of scope. The main motivation may lie in diversification benefits, instant growth etc. It is characterised when the acquired firm is in a different industry from that of the acquiring firm. These occur when the motives are a combination of operating in a saturated domestic market. Fewer cultural clashes are encountered unless close interaction is enforced between the firms Nahavandi and Malekzadeh (1988). Since only financial resources are transferred and minimal interaction is required between the acquirer and the acquired firm, implementation time for this type of M&A is usually the shortest (Haspeslagh and Jemison, 1991; Nahavandi and Malekzadeh, 1988). This type of M&A was very popular with firms during the late-1980s when a great deal of diversification took place (UNCTAD, 2000). This trend however has declined drastically from a high of 42 per cent in 1991 to only 27 per cent in 1999 (Figure 2.1). The reason for this is



that companies are currently increasing focus on their core business to cope with intensifying international competition.

**2.1.3 Driving forces of cross-border M&A**

*With the above trends in mind, it would be interesting to identify a multinational enterprise (MNE) that partakes in the different domain strategies and explore whether they manage each strategy differently or not. There are two advantages for this approach.*

*Firstly, it will allow the researcher to compare and contrast the management of the post-acquisition process of the different M&A strategies conducted by one MNE in the same study. This would allow the comparison of how they are managed in different M&As by the same firm. It would be a unique approach as many studies tend to focus on understanding the challenges that occur only in one domain strengthening strategy (Datta, 1991).*

*Secondly, since cross-border M&As dominate the scene today instead of domestic M&A (concluding from UNCTAD annual reports seen earlier), it would be interesting to explore the extent of cultural influences in each domain strategy. By doing so, the study would be very useful for international managers in multinational corporations to understand the differences and or similarities and strategise plans accordingly for the post-acquisition management process in different countries.*

The drivers, motivations and characteristics for M&As have changed over the years as suggested in Table 2.3. This table displays the changing characteristics of M&A according to the domain strategy; size of deals; motives; industries; nationality of acquirers; and the popular destinations.



Table 2.3: Changing characteristics of M&A

<b>Characteristics</b>	<b>1960's &amp; 1970's</b>	<b>1980's</b>	<b>1990's</b>
<b>Domain strategy (H&amp;Js, 1991)</b>	<ul style="list-style-type: none"> <li>Domain exploration</li> </ul>	<ul style="list-style-type: none"> <li>Domain exploration in the early 1980s</li> <li>Domain strengthening in the late 1980s</li> </ul>	<ul style="list-style-type: none"> <li>Domain strengthening or extension in similar or related industries, especially in Europe</li> </ul>
<b>Size</b>	<ul style="list-style-type: none"> <li>Small corporations were more vulnerable</li> </ul>	<ul style="list-style-type: none"> <li>Small corporations were also the prey</li> <li>Emergence of deals above USD 500m</li> </ul>	<ul style="list-style-type: none"> <li>Increasing size, especially in the late 1990s</li> <li>Mega-deals of more than USD 1 billion each (1998: over USD 10 billion a deal emerged)</li> </ul>
<b>Driving forces</b>	<ul style="list-style-type: none"> <li>Consolidation</li> </ul>	<ul style="list-style-type: none"> <li>Restructuring</li> <li>Globalisation</li> <li>Anticipation of Single Market in Europe – increased number acquisitions in Europe during the late 1980s and early 1990s</li> <li>Self-generation elements</li> </ul>	<ul style="list-style-type: none"> <li>Global progress of deregulations</li> <li>Liberalisation of trade, investments and capital markets</li> <li>Intensifying international competition</li> <li>Increasing acceptance of M&amp;A as means of response</li> <li>Shift towards accounting standards that enable corporations to be compared on an international basis</li> </ul>
<b>Motives</b>	<ul style="list-style-type: none"> <li>Spread risks of business through diversifications</li> </ul>	<ul style="list-style-type: none"> <li>To gain economies of scale</li> <li>To boost market share</li> <li>To become a key player through geographical diversification</li> <li>To buy instant success (acquisitions of brands)</li> <li>For defence</li> </ul>	<ul style="list-style-type: none"> <li>Unique to each industry</li> <li>To gain economies of scale and/or scope</li> <li>Search for operational, financial and managerial synergies</li> <li>To attain dominant market position</li> <li>Short-term financial gains in terms of stock value</li> <li>For defence</li> </ul>
<b>Industries</b>	<p>Mostly manufacturing industries:</p> <ul style="list-style-type: none"> <li>Motor vehicles</li> </ul>	<p>Focus was manufacturing shifting towards services:</p> <ul style="list-style-type: none"> <li>Chemicals / Pharmaceuticals</li> <li>Food, beverages and tobacco</li> <li>Motor vehicles (Far East and Japan)</li> </ul>	<p>Focus shifted mainly to services but still included manufacturing industries:</p> <ul style="list-style-type: none"> <li>Insurance</li> <li>Banking and finance</li> </ul>



		<ul style="list-style-type: none"> <li>▪ Manufacture of paper</li> <li>▪ Electrical and electronic engineering</li> <li>▪ Advertising</li> </ul>	<ul style="list-style-type: none"> <li>▪ Utilities</li> <li>▪ Business services (consultancies)</li> <li>▪ Telecommunications</li> <li>▪ Mining and Petroleum</li> <li>▪ Chemicals / Pharmaceuticals</li> <li>▪ Automotive components</li> </ul>
<b>Nationality of acquirers</b>	<ul style="list-style-type: none"> <li>▪ France, UK, US and Germany</li> </ul>	<ul style="list-style-type: none"> <li>▪ US, Western Europe (UK), Canada, Japan and Germany</li> </ul>	<ul style="list-style-type: none"> <li>▪ US, UK, Germany, France and Netherlands</li> </ul>
<b>Popular destinations</b>	<ul style="list-style-type: none"> <li>▪ US, Japan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mostly developed industries:</li> <li>▪ US, Canada, UK, Germany, France and Japan</li> </ul>	<ul style="list-style-type: none"> <li>▪ US, UK, Germany, France, Sweden, China, Brazil and Netherlands, Japan</li> <li>▪ And increasingly common in developing countries (Latin America and East Asia)</li> </ul>

Source: Adapted from Quah and McDermott (2000), based on Acquisition Monthly and UNCTAD reports

Notes: H&J denotes Haspeslagh and Jemison (1991)

The common strand throughout the 20<sup>th</sup> century is that M&A activity tended to occur in waves, with increased activity when stock market prices were high (Mueller, 1989). Economic recessions and booms affected the level of M&A activity and focus. The waves of cross-border M&A have been the economic consequence of globalisation and the restructuring of MNEs due to increasing global competition and technological advances. These driving forces can be classified under the political, economic, social and technological factors, also known as the PEST factors, which are discussed next.

### **Political forces**

Market liberalisation and deregulation across the OECD area caused a surge of cross-border M&A activity. In the 1990s, liberalisation of international capital movements and FDI led to cross-border transactions on a larger scale and involved a wider range of countries (OECD, 2001). Regulatory reform in regulated industries such as telecommunications, electricity and finance played an important role in the dramatic increases in M&As as it created new market opportunities in both developed and developing countries. Many of the largest cross-border M&As occurred in the telecommunications sector when companies raced to achieve global reach as the national monopolies disintegrated and were sold-off. Other general motives included economic growth, rising share prices and the desire of firms to shed affiliates in unrelated and related sectors. For example, during the late 1990s in the US auto industry, the main OEMs such as Ford and GM shed their automotive components' affiliates to reduce burden on profits and generate leaner production.

Privatisation also contributed to increased cross-border M&A activity by increasing targets and opening up economies to increased competition. This is evident in increased inward M&A in Latin America and in Central and Eastern Europe, linked to privatisation of state enterprises in telecommunications, energy and other sectors (UNCTAD, 1999).

Integration of regional markets in Europe has encouraged firms to expand their operations geographically, leading to more M&A. In particular, the anticipation of



the European Single Market in 1992 generated an increase of M&A activity in Europe during the late 1980s and 1990s respectively. This is because the introduction of the euro has been anticipated to reduce exchange rate risk and transaction costs across the European Union. The euro has also been anticipated to increase price transparency, thereby increasing competition and price discipline, thus, supporting trade and business expansion.

### **Economic forces**

The macroeconomic environment influences both the supply and demand for cross-border M&A. The capital available for investment abroad depended on the level of economic expansion in home countries. For example, the prolonged economic expansion and highly valued stock markets in the United States and the United Kingdom over the 1990s have played an important role in the continued and rapid increase of both inward and outward cross-border M&A (OECD, 2001). In fact, these two countries were the largest M&A investors and recipients during the 1990s. The driving forces for cross-border M&A can be generally attributed to fiercer competitive pressure brought about by globalisation and rapid technological advances. In addition, expanding firm size and managing a portfolio of locational assets are increasingly becoming important for firms, as it enables them to take advantage of resources and markets worldwide.

In contrast, slower economic growth works against cross-border M&As. For example, Japan had a persistent recession during the 1990s that slowed the outward FDI from Japan including outward M&A (purchases). When Asia was hit with the currency crisis in 1997-98, the region suffered from a serious economic recession, and outward acquisitions by Asian countries decreased sharply in 1998. The volatile stock prices and uncertainty about markets slowed the M&As activity in Asia. Then, there has been a notable slow down in cross-border M&A activity ever since the unfortunate September 11<sup>th</sup> 2001 events in the United States, which witnessed a crash in the stock markets around the world followed by a recession. As a result, companies are currently more cautious about their international expansion strategies in the early 21<sup>st</sup> century.

### **Social forces**

Cross-border M&As activity has increased because many MNEs have used M&A as a tool to gain quick market entry into the developing regions such as the Asia-Pacific and South America. The main driver for this has been the large migration of population from the rural areas to the urban areas, providing ample market opportunities for any MNE to tap into (OECD, 2001). In addition, the population growth of developing and less-developed countries is anticipated to grow the faster in the near future as compared to the developed countries.

### **Technological forces**

Technology has driven M&As at international level in two ways: 1) the growing ease of communication, and 2) the high cost of research. The falling communication and transport costs have facilitated the international expansion of firms seeking to exploit and consolidate their competitive advantage. MNEs are able to expand and strengthen their global market position through M&As while maintaining efficiency and flexibility in their management through the new communication tools such as the Internet or electronic mail. These new communication tools have made cross-border collaboration far easier and more practical. They have changed the manner of doing business in many sectors and have enabled firms in different locations to share know-how, information, distribution networks and other assets simultaneously (OECD, 2001).

Soaring costs of research and development (R&D), coupled with the uncertainties of technological change have forced firms to seek collaboration with others in global markets in various ways to share resources and risks for developing new products (Duysters et al., 1998). For example, in the automotive industry where the need for frequent new models and components has resulted in many OEMs and suppliers consolidating resources, the aim is to gain economies of scale and scope in R&D, production, and marketing and distribution in new markets

As seen in Chapter 1, during the 1990s, the US was the most active acquirer into Europe mainly because of increasing domestic competition and the impending Single



European market. US MNEs mainly acquired into Europe's manufacturing and utilities industries. Therefore, it would be interesting to study US MNEs acquisitions in Europe during this period to evaluate how they have managed those acquisitions and how they are faring today.

#### ***2.1.4 Motives for M&As***

In addition to the driving forces behind cross-border M&As, various studies have also looked at the motives behind the deals. As with the driving forces behind M&As, motives too have changed over the decades (as seen in Table 2.4).

The traditional motive for FDI is to gain access to markets in foreign countries. The market-seeking motive by MNEs is often explained by the OLI (Ownership, Location, and Internalisation) paradigm, which takes into account the firm's competitive advantage, transaction costs and characteristics of the host country (Dunning, 1977 and 1995). According to this paradigm, a firm needs to have ownership-specific competitive advantage to undertake FDI successfully. This competitive advantage arises from firm-specific intangible assets such as production knowledge and skills, marketing capabilities and brand name or superior management capabilities. The OLI paradigm represents an internalisation of markets aimed at extending the exploitation of a competitive advantage abroad.

Firms engage in globalisation to seek strategic assets (resources) such as technology and management capabilities (Sachwald, 1998). A firm needs external complementary resources and competencies to fill the gap between its internal capabilities and its strategy, which has tended to expand owing to rapid technological change and the globalisation process. Firms that are unable to develop technology in-house due to time and resource constraints may choose M&As as a speedy way to acquire technological and human resources (Miotti and Sachwald, 1999). In this case the firm is motivated by a missing resource rather than by some pre-existent ownership advantage as described by the OLI paradigm.



Table 2.4: Some studies that looked at the motives behind M&As

Motive (s) for M&As		Explanation	Author(s)
Strategic	Inject corporate entrepreneurship into the MNE	Benefits from a venturing strategy is the connecting of the firm into new networks of suppliers, competitors and customers.	Zahra, Ireland and Hitt (2000).
	Instant growth and speed	Achieving growth, access to markets, and access to technology has led companies to pursue cross-border M&As as a tool to meet the challenges of global competition.	Bleeke et al. (1993)
		Mergers and acquisitions are arguably the most popular and influential form of discretionary business investment.	Sirower (1997)
		Acquisitive growth is seen as a lot more certain and instant than organic growth which normally takes a number of years.	Morgan (1988)
	To buy market share	Barriers to entry represent factors associated with the market and/or firms currently operating in the market that make it more expensive and difficult for a new firm to enter that market. While an acquisition might be costly, the acquiring firm can achieve immediate access with an established product that has a loyal consumer base. The acquiring firm does not have to work hard to develop a relationship with customers.	Hitt et al. (1996)
	To diversify	M&A is a popular means of expanding market share and/or moving into unrelated market. Firms have the options of forward or backward diversification, conglomerate diversification, and international diversification	Hitt et al. (1996)



	To eliminate competition or to be defensive	<p>Conglomerate acquisitions allow a firm to embark on the following activities:  A firm can aim at limiting competition through acquiring competitors;  A firm can also aim at deterring potential entrants from its markets.</p> <p>Another possible way of achieving this is concentric acquisition by a market leader.</p>	Morgan (1988)
Economic	To achieve economies of scale	<p>Able to spread their fixed costs over a larger sale base and therefore enjoy a higher profit margin on each product sold.</p> <p>Able to exploit core competencies or distinctive firm capabilities.</p> <p>Firms with strong core competencies, which are often product or industry specific, can apply them across international markets. This allows resource sharing between units across country borders. This produces synergy and helps the firms produce high-quality goods or services at lower cost</p>	Haspeslagh and Jemison (1991)
	To obtain synergy in value chain activities	<p>Sharing and transferring operational skills resources. These stem from combining operations of hitherto separate units or from knowledge transfers. Both may lower the cost of the involved business units or may enable the company to offer unique products and services.</p> <p>Sharing and transferring managerial skills and resources. These are realised when the bidder's managers possess superior planning and monitoring abilities that benefit the performance of the target.</p>	Porter (1985); Haspeslagh and Jemison (1991)
	To purchase unique resources	<p>For example, many car manufacturers acquire vertically to secure a source of raw materials of automotive electronics components.</p>	Hitts, Ireland and Hoskisson (1996); and Hamill (1988)



	To increase market power	<p>This is a form of monopoly theory. Market power is derived from the size of the firm and the firm's resources and capabilities to compete in the marketplace through its market share. Many firms may have the core competence, but may lack the size to exercise the resources and capabilities.</p> <p>Therefore, most acquisitions are designed to achieve greater market power and this entails buying a competitor (horizontal acquisition) or a business in a highly related industry (related acquisition) to allow exercise of a core competence and gain competitive advantage in the acquiring firm's primary market.</p>	Hitt et al. (1996)
Behavioural or Managerial	To increase managerial utility	<p>There is a wide spread belief among senior management of companies that growth by acquisition is seen to be a test of management talent and ability and attracts a large measure of prestige. Successful growth by acquisition is the pinnacle of high performance management. The extra element of risk increases the management's perception of challenge and hence their enjoyment of the 'game' and their satisfaction at a successful result.</p>	Morgan (1988)
	To fulfil individual managerial goals	<p>Management may pursue their own aims, if they have a small proportion of the share capital, at the expense of the shareholders. A variation may be they want to expand their enterprises, since their salaries, perquisites and status often increase in size.</p> <p>The financial motivator for the managements (though not primary) of both acquiring and acquired companies often added in the form of share option schemes. This adds considerably to the personal wealth of the management.</p>	Morgan (1988)

Source: Author



MNEs also seek to realise efficiency gains by restructuring their businesses on a global basis. Companies acquire firms in similar or related industries to gain economies of scale, boost market share, or become a key player through geographical diversification.

Defensive motives are also part of the drive to acquire, as the perception was the bigger the firm, the “safer” the firm is from being acquired. M&As can also serve to eliminate actual or potential competitors. To reduce risk, firms may acquire companies in other economies on the basis that the covariance of industry returns is likely to be smaller across economies than in one economy (OECD, 2001).

Another motive for M&A identified in recent literature is associated with injecting corporate entrepreneurship into a large MNE. There has been a recent general trend towards the encouragement of entrepreneurial behaviour by large traditional businesses as they try to cope with the increasing speed of change (Taylor, 2001). This is known as ‘corporate entrepreneurship’ or ‘intrapreneurship’. This can be achieved through international venturing where the company goes into a new territory, market or even an industry (Zahra et. al., 2001). The purpose is to capture the characteristics of an entrepreneurial firm such as to be driven by the perception of opportunity or be revolutionary (Stevenson and Gumpert, 1985); or capture proactiveness and promote innovativeness (Stopford and Baden-Fuller, 1994) in the acquirer.

There are several potential reasons for firms to follow an acquisition strategy. Many researchers agree that acquisitions are driven by a complex pattern of motives, and that no single approach can render full account (Steiner, 1975; Ravenscraft and Scherer, 1989).

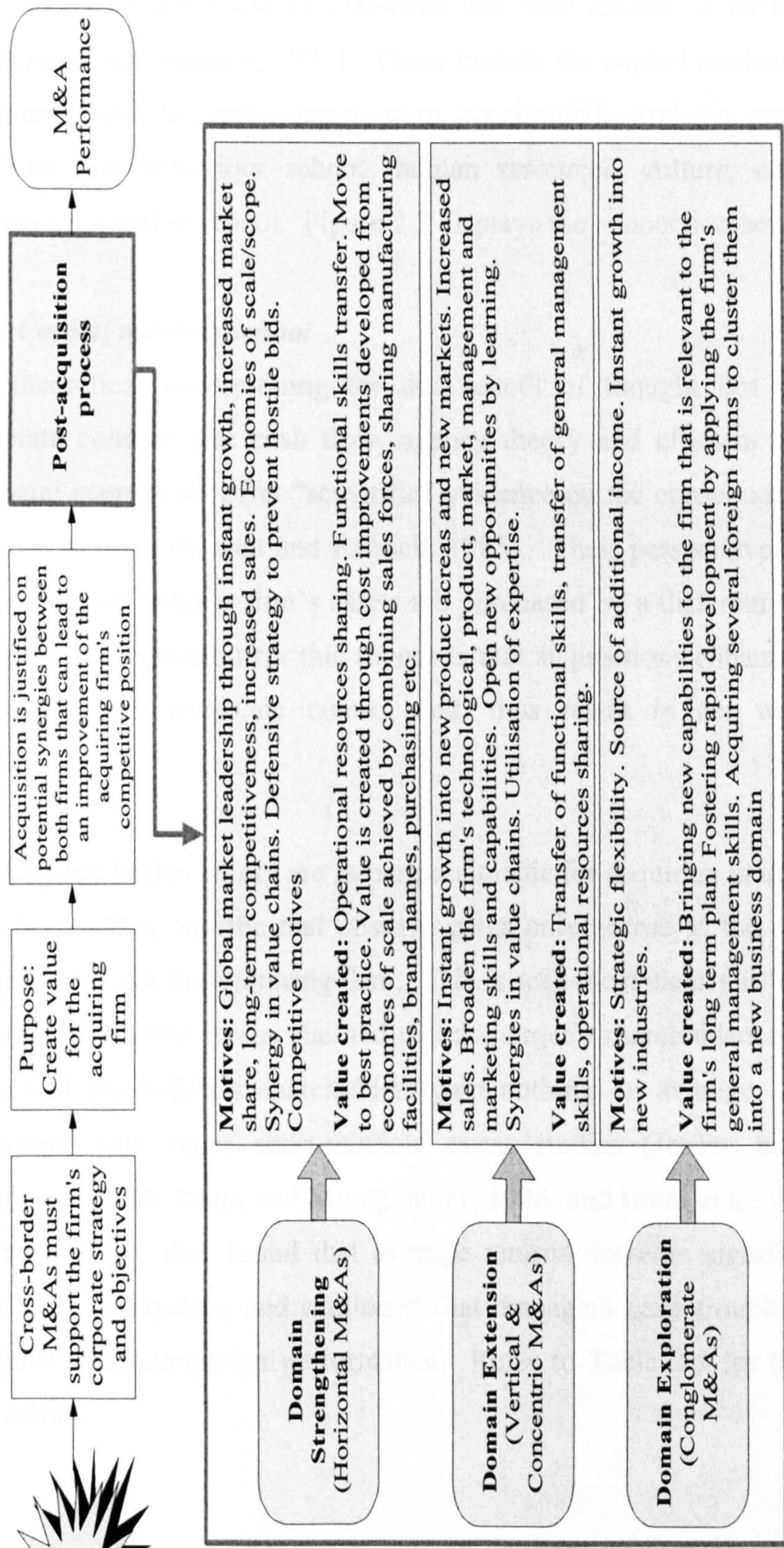
*Therefore, it can be concluded that when an M&A takes place, it could be due to a combination of various motives. See Table 2.4 and Figure 2.2 (for possible M&As motives).*



Figure 2.2 underlines the range of motives in relation to the domain strategies identified by Haspeslagh and Jemison (1991). This figure also highlights the possible creation of value for the different domain strategies. It posits that all acquisitions are formulated and conducted because of the possible value creation synergies from the post-acquisition process. Each company operates within a domain that encompasses the set of businesses within which it is competitive, the capabilities that underlie them, with which its top management is familiar, and to which its corporate organisation is suited (Haspeslagh and Jemison, 1991).



Figure 2.2: Summary of motives according to the types of M&As



Source: Author, based on Cooke (1986); Hamill (1988; 1991); Love and Scouller (1990); Haspeslagh and Jemison (1991); Bengtsson (1992); Root (1994); and Hitt et al. (1996).



## 2.2 M&A SCHOOLS OF THOUGHT

The M&As literature can be classified into four schools of thought (suggested by Haspeslagh and Jemison, 1991). These include the capital markets school (financial economics and industrial-organisation economics), strategic management school, organisational behaviour school (human resources, culture, and crisis) and the process perspective school. Figure 2.3 displays the connection between the schools.

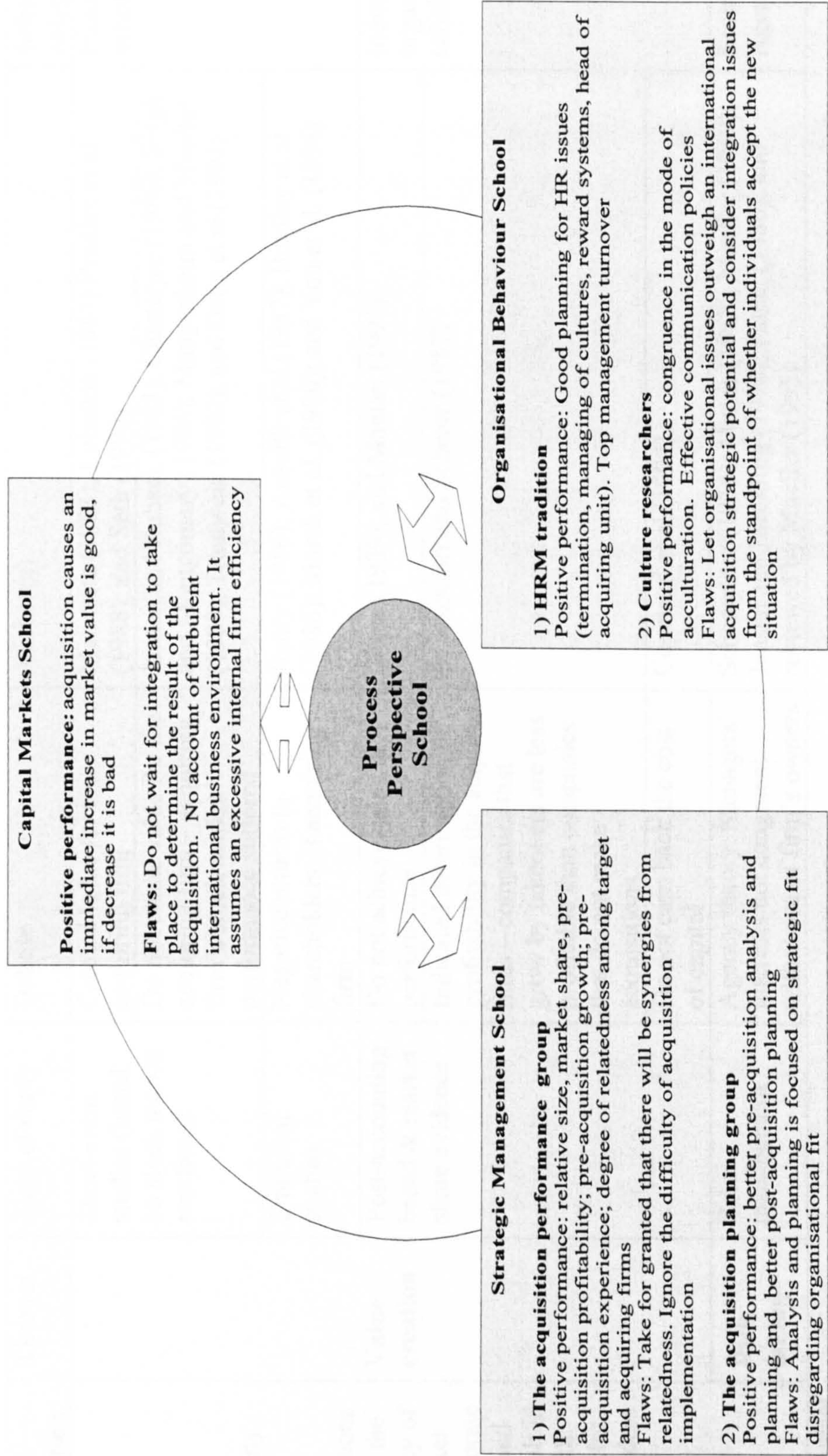
### *2.2.1 Capital markets school*

The theoretical underpinning for this school of thought lies in the market for corporate control; free cash flow; agency theory and efficient market hypothesis. Financial economists offer “scientific” evidence on the consequences of merger and takeover activity (Jensen and Ruback, 1983). Their perspective focuses on wealth gains achieved when a firm’s assets are purchased by a different group of investors. The central proposition for this school is that acquisitions enhance the efficiency of the market for corporate control and, thus result in net wealth creation for shareholders.

The findings in this school are rather pessimistic for acquirers in that acquirers do not gain from M&A and the real positive gains only accrue to the shareholders of the acquired, but not the acquiring firm. This is seen most clearly in Trautwein’s (1990) review paper where it was claimed that the target’s shareholders reap most of all the gains and the bidder’s shareholders gain nothing on average. This finding was consistent with other short-window event studies (Jensen and Ruback, 1983; Chatterjee, 1986; Singh and Montgomery, 1986; and Datta et al., 1992). Fowler and Schmidt (1988) also found that average returns decrease significantly in the four years after acquisition and cautioned that managers have trouble maintaining even adequate post-acquisition performance. Refer to Table 2.5 for the main studies in this school.



Figure 2.3: M&A schools of thought



Source: Author, based on various works from, the four schools of thought by Haspeslagh and Jemison (1991)



Table 2.5: Capital market school of thought

Central proposition	Themes	Type of study	Debate	Author(s)	Scholar category
On society level  Acquisitions enhance the efficiency of the market for corporate control and thus result in net wealth creation for shareholders	Value creation	Short-event studies (based on stock market reactions)	Created value for the acquiring firm	Malatesta (1983); Lubatkin (1987) Bradley et al (1988); and Seth (1990)	Finance scholars
			Do not create value for the acquiring firm – acquiring firm’s stock market performance suffered	Jensen and Ruback (1983); Chatterjee (1986); Singh and Montgomery (1986); Mangenheim and Mueller (1988); Trautwein (1990); and Datta et al (1992)	
		Empirical studies	Negative returns to shareholders of acquiring firm	Henry (1986); Asquith et al.(1987); Bradley et al. (1988); Morck et al. (1990); and You et al. (1994)	
		Post-accounting based & market share evidence	Do not achieve gains in performance	Caves (1989); and Mueller (1995)	
			Indicated deterioration of profitability in the acquired lines – companies that grow by takeovers are less profitable than companies that do not make acquisitions	Ravenscraft and Scherer (1987)	
Risk taking	Risk taking		Do not earn back the cost of capital	Copeland et al.(1994)	Industrial organisational scholars
		Beta management	Agency theory: Managers’ interests not congruent with those of firm’s owners	Schumpeter (1934); Marris (1963); Mueller (1969); Jensen and Meckling (1976); Fama, (1980); and reviewed by Mueller (1995)	

Source: Author



There is a main flaw in this school of thought (Figure 2.4) which is that financial economists do not consider it necessary to wait for the acquisition to be integrated to determine the post-acquisition success. Their view of acquisition success depends on too short a time span that does not allow the M&A to go through the process of integration. In this school, success of the M&A is very much dependent on the stock market prices before and immediately after the deal is signed. This is where the literature between the capital and strategic schools differ. Strategic management scholars consider it necessary to evaluate the integration process before determining the value created by the acquisitions.

### ***2.2.2 Strategic management school***

While the financial economists' perspective is primarily interested in the efficiency impact on the economy, the strategic school is interested in the acquisition impact on the individual firms. The central proposition in this school of thought is on industrial organisation economics (Scherer and Ross, 1990). The basis is that synergies are a result of economies of scale, scope and market power that can be realised through related acquisitions, which will in turn lead to superior performance in the acquiring firm (Lubatkin, 1983; Chatterjee, 1986; and Singh and Montgomery, 1987).

The scholars in this school who are very much focused on the following questions (see Table 2.6 for main studies):

- Which acquisition choices are likely to lead to success? For example, what types of mergers (related or unrelated) lead to better results in terms of synergy or financial performance; and
- What other factors may affect M&A performance? (Chatterjee, 1986; Lubatkin, 1983; and Singh and Montgomery, 1987).



Table 2.6: Strategic management school of thought

Central proposition	Themes	Debate	Author(s)
<i>Synergies</i> (as a result of economies of scale, scope, market power, etc.) will have a positive impact on acquirer performance  Commonly known as the “2+2=5” effect	<b>Type of M&amp;A: relatedness</b>	Positive relationship between relatedness and success	Jacquemin and Berry (1979); Bettis (1981); Rumelt (1982); Porter (1987); Singh and Montgomery (1987); Shelton (1988); Chatterjee and Lubatkin (1990); and Seth (1990)
		No positive relationship between relatedness and success	Michel and Shaked (1984);Montgomery (1985); Nathanson (1985); Chatterjee (1986); You et al (1986); Lubatkin (1987); and Varadarjan and Ramanujam (1987)
	<b>Other factors affecting post-performance</b>	Timing of post-acquisition changes (slow vs. quick change)	Searby (1969); Shirvastava (1986); Yunker (1983); Schweiger et al (1993); Angwin (1998); and Nikandrou et al (2000)
		Positive relationship with performance and acquisition experience	Fowler and Schmidt (1989)
		Negative relationship between multiple bidders and performance	You et al (1986)
		Insufficient pre-acquisition planning and discussion leads to failure	Keil (1966); Leighton and Todd (1969); Jemison and Sitkin (1986); and Haspeslagh and Jemison (1991)
		Do not create shareholder value	Porter (1987)
	<b>Link between success of an acquisition</b>	Need to inform the members of the acquired firm about the nature and depth of the changes that will take place	Sinetar (1981); Marks and Mirvis (1985); and Olie (1994)



	and the clarification of the post-acquisition objectives	Ambiguity as to the objectives of the acquisition is likely to make members of the acquired firm wary and afraid of an unfavourable distribution of roles	Jemison and Sitkin (1986); and Evrard (1996)
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Source: Author



There are two major flaws in this school of thought. First, although the popular conjecture continues to favour related acquisitions, the evidence in this area is mixed and there is no consistent support (as seen in Table 2.6). There is also too much emphasis of the degree of relatedness and post-acquisition success, ignoring the difficulty of the acquisition implementation process and the challenges that other types of M&A may face.

Secondly, the results of this school are ambiguous because many other additional structural and organisational variables have been suggested as possible determinants of acquisition success. These variables include market share, relative size, pre-acquisition experience, timing relative to the business cycle, and business relatedness (Fowler and Schmidt, 1989; and Kitching, 1967). The inconsistencies in this school can be attributed to the different paradigms and methodologies utilised (Chatterjee et al., 1992) from qualitative to quantitative methods.

### ***2.2.3 Organisational behaviour school***

While the finance literature looks at the impact of the acquisition on the economy and the strategic literature focuses on the impact on a given firm, the organisational literature covers the acquisition impact on individuals and organisational culture. The scholars in this school adopt a more human resource oriented perspective and concentrate on organisational responses to mergers. The central proposition in this school of thought is that the congruence between the cultures of the two merged organisations will facilitate employee satisfaction and effective integration (see Table 2.7 for main studies).



Table 2.7: Organisational behaviour school of thought

Themes	Issues	Author(s)
<b>Communication during the M&amp;A process</b>	Communication is key to successful integration	Balmer and Dinne (1999); and DeVoge and Spreier (1999)
	Being truthful, open and forthright during the process is important	Daniel (1999); DeVoge and Spreier (1999); and DeVoge and Shiraki (2000)
	Type of information flow (face-to-face meetings is a richer form of communication)	Richardson and Denton (1996)
	Timing is of the essence	Burke (1987); Balmer and Dinnie (1999): Daniel (1999)
<b>Organisational resistance causes integration problems</b>	Employees' feelings	Sutton (1983); Sales and Mirvis (1985); Marks and Mirvis (1985); and Buono et al.(1988)
	Psychological contracts (a powerful determiner of behaviour in organisations)	Baker (1985); Guzzo et al (1994); Morrison (1994); Robinson and Rousseau (1994); and Makin et al (1997)
	Individual members go through different stages after the M&A	Jick (1979); Marks (1982); and Devine (1984)
<b>Cultural fit</b>	Positive relationship between corporate cultural differences and post-merger problems and failure	Sales and Mirvis (1984); Buono et al (1985); Walter (1985); Chatterjee et al (1992); Cartwright ad Cooper (1993); Larsson (1993): and Weber (1996)
	Corporate cultural compatibility leads to success	Martin and Siehl (1983); Sales and Mirvis (1985)
	Persistent national cultural differences inhibit integration efforts	Calori et al (1994); Morosini and Singh (1994); Olie (1994); Weber et al (1996); Very et al (1997): Gertsen et al (1998); and Child at el (2000)
<b>Acculturation</b>	CEOs and human resource departments need to collaborate and consider that culture can make it or break it in the merger equation	Tetenbaum (1999)
	Acculturation stress is more pronounced among cross-national that domestic M&As (double layered acculturation process)	Malekzadeh and Nahavandi (1998); and Cartwright and Hudson (2000)
	Combining the cultures of the firms involved in M&A	Berry (1983); and Nahavandi and Malekzadeh (1988);



	Organisation fit: more related the firms in M&A, the more difficult to achieve acculturation during integration	Salter and Weinhold (1979); O'Reilly et al. (1991); and Larsson and Lubatkin (2001)
	National cultural differences cause post-merger problems	Calori et al (1994); Morosini and Singh (1994); Weber et al (1996); and Very et al. (1997); Salk (1997); Gertsen et al. (1998); and Vaara (2000)
	Relative-standing: acculturation is easier if the acquired firm is provided a high degree of autonomy	Weber et al. (1996)
	Social anthropology: acculturation and the psychological impact on individual employees	Cartwright and Cooper (1992)
	Acculturation is best achieved when acquirer uses social controls	Larsson and Lubatkin (2001)
		.

Source: Author



Many articles in this school have focused on the ‘human-side of M&A’ that is often neglected by managers’ intention on doing the deal and realising operational synergies (Levinson, 1979; Marks, 1982; Bastien, 1987; Ivancevich et al., 1987; Buono and Bowditch, 1989; Mirvis and Marks, 1991; and Cartwright and Cooper, 1993).

These organisational researchers have explained post-merger problems and the experienced failures with organisational cultural differences (Sales and Mirvis, 1984; Buono et al, 1985; Chatterjee et al., 1992; Cartwright and Cooper, 1993; Larsson, 1993; Weber, 1996; Gertsen et al; and Vaara, 2000). In these studies, widely held beliefs have been found to be particularly change resistant and cultural incompatibilities cause organisational problems (Cartwright and Cooper, 1992). This is where it is important to introduce the term acculturation and the modes of acculturation in M&As.

### **Modes of acculturation**

Researchers in this school have focused on “acculturation stress” from an integration perspective (Berry, 1980). The acculturation term has been borrowed from anthropology and cross-cultural psychology and refers to the process by which two or more cultures come in contact and resolve the conflict that arises because of this contact (Nahavandi and Malekzadeh, 1988). It examines the changes in behaviour that result from the forced interaction of two different organisational cultures during the post-acquisition process. The argument here is that cultural compatibility will reduce acculturative stress at the individual level and thus smooth the integration process (Sales and Mirvis, 1984; Nahavandi and Malekzadeh, 1988; and Cartwright and Hudson, 2000).

This section addresses three acculturation models adopted in the literature, ranging from the earliest to the latest identified in M&A literature. At the end of each model, the current author discusses the strengths and weaknesses for each, highlighting gaps in which research should be undertaken to contribute further to the literature.



- *Model 1: Nahavandi and Malekzadeh's preferred types of adaptation process (1988)*

This is the most influential acculturation model in M&A studies. The basis is that there are four factors that affect acculturation, namely culture of the organisation, its strategy, its structure, and its leadership. Based on these factors, Berry (1983) and Nahavandi and Malekzadeh (1988) distinguished four modes of acculturation in M&A: integration, assimilation, separation and deculturation.

*Assimilation* mode means that the conflict between two cultures is resolved when the acquired firm gives up its practices, procedures, and philosophies and becomes totally assimilated into the acquired firm. *Integration* mode, is the least common adopted mode, and means the acquired firm maintains most, if not all, of the cultural and organisational elements that provide its unique identity. *Separation* mode involves an attempt by the acquired firm to remain separate from the parent company by retaining all its cultural elements and practices. *Deculturation* is the least positive and least desirable mode as it involves the loss of all the acquired firm's cultural and managerial characteristics.

The authors argued that each mode of acculturation leads to some degree of conflict with assimilation leading to the least amount, whereas deculturation leads to the highest level. Integration and separation leads to a moderate amount of conflict. The choice of mode varies according to the point of view of the acquired firm and the acquirer. For the acquired firm, the choice depends on 1) the strength and success of acquired firm's culture and how much its employees want to preserve this and 2) on the perception of the acquirer. For the acquirer, choice of mode depends on the choice of domain strategy (e.g. domain strengthening, exploration or extension) and the differences in organisational cultures (Table 2.8). This argument is similar to Haspeslagh and Jemison's (1991) four integration modes (Figure 2.4), discussed further in a later section of this chapter.



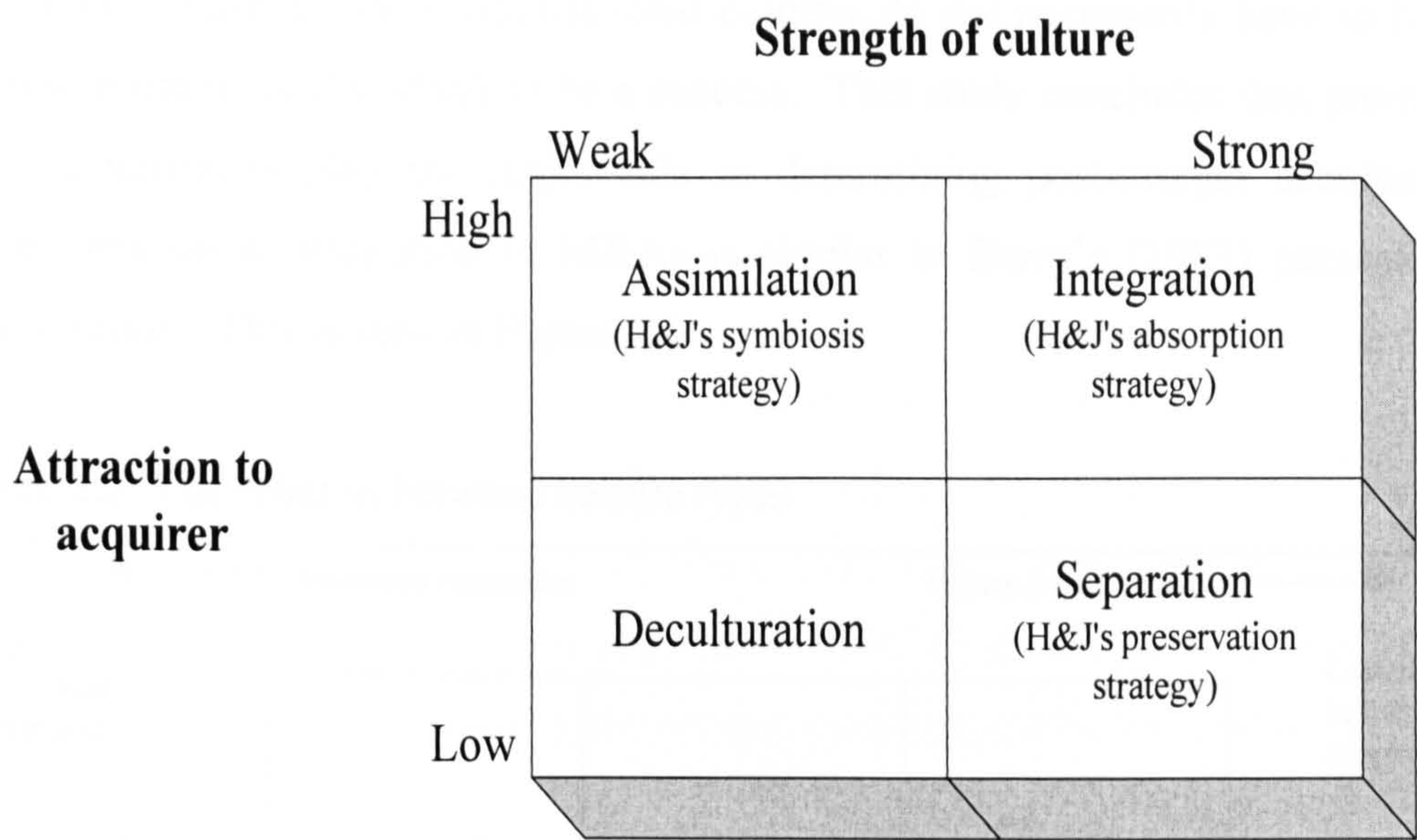
Table 2.8: Characteristics of M&A

H&J's strategies		Domain strengthening		Domain extension		Domain exploration
Characteristics		Horizontal		Vertical	Concentric	Conglomerate
Transfer of resources	<i>Advantage</i>	Immediate transfer of physical assets such as technology		Only financial resources are transferred	Prior agreement states timetable for transfer of resources	Short-term transfers only, primarily financial resources
	<i>Disadvantage</i>	Transfer of human resources may be difficult, leading to many quitting		Can refocus the business without management expertise	Transfer of human resources may be difficult, due to lack of industry expertise	Long-term managerial and other control systems may be transferred
Personnel interaction	<i>Advantage</i>	Required close interaction need for synergy		Minimal interaction is required	Moderate interaction; joint teams to solve problems	Minimal interaction required
	<i>Disadvantage</i>	Required close interaction likely to lead to high conflict		Forcing close interaction can lead to high conflict	Some cultural clashes; turf warfare is possible	Forcing close interaction may lead to high conflict
Implementation time	<i>Advantage</i>	None		Relatively quick	Relatively quick – within 1-2 years	Very quick
	<i>Disadvantage</i>	Up to seven years which allows competitors to gain advantage		None	None	None
Profitability	<i>Advantage</i>	On average, more profitable than other types of mergers		Can absorb the acquired unit's margin	More than vertical and conglomerate	Higher than vertical mergers
	<i>Disadvantage</i>	May fail due to initial overpricing and later cultural clashes		On average, less profitable than other types of mergers	Less than related, in the long run meddling may cause losses and less profit	Lower than related and concentric mergers

Source: Adapted from Nahavandi and Malekzadeh (1988); and Haspeslagh and Jemison (1991)



Figure 2.4: Acculturation modes for the acquired firm



Source: Nahavandi and Malekzadeh (1988), and Haspeslagh and Jemison (1991)

*Although this is the most influential study in the M&A literature, there is a major flaw in this theoretical model. This study only looked at the differences of organisational culture between the acquirer and the acquired firm. It did not take into account the possible effects and impact of national cultural differences which is becoming increasingly important to consider and understand as cross-border M&A activity dominate the scene today.*

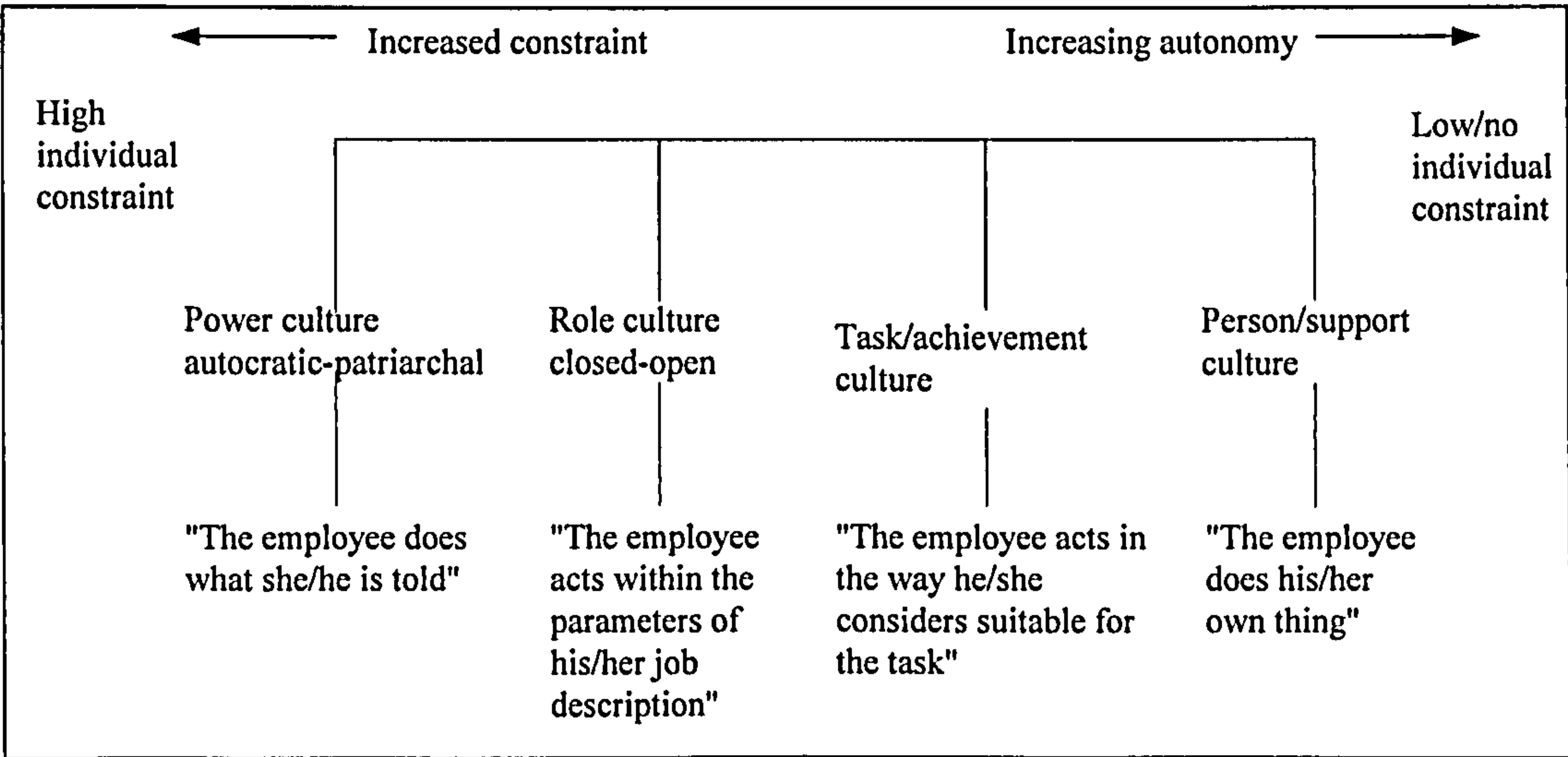
▪ *Model 2: Cartwright and Cooper’s model of cultural fit (1992)*

This model is brought to attention in this thesis because it is one of the few cultural studies that adopted a mixed methodology to understand cultural differences in M&As. On a basis of extensive empirical data (600 questionnaires, 150 interviews and observations), the authors studied the cultural fit of four companies (three in the UK and one cross-national) involved in horizontal M&As in which large-scale integration was required. They studied acculturation and the psychological impact on employees’ feelings in M&A.



The authors claim that different combinations of the types have predictable outcomes, though the two organisational cultures do not necessarily have to be very similar in order for the M&A to be a success. This study concludes that pre-merger cultural attributes play the major role in determining post-merger acculturation. Their view on acculturation in M&As is similar to Berry’s (1983) perception of acculturation. This is seen in Figure 2.5.

Figure 2.5: The relation between culture types



Source: Cartwright and Cooper (1992)

*Power culture* is identified by a distinct centralisation of power. It is often a small company with a charismatic leader. The decisions are made by the management alone and are frequently based on intuition. In a *role culture*, what are important are functions rather than people, and division of labour is highly specialised. There are many rules and clear limits for work areas and authority and the hierarchy is formalised and clear to all. In the *task culture*, the nature of tasks determines how one works. The tasks are challenging but the employees run the risk of burning themselves out. Finally, the *person culture* is where the organisation is egalitarian and the structure is minimal. The growth and development of the individual is regarded as the most important factor. Decisions are made collectively and all information is shared. Planning the cultural aspects of M&A through proactive planning of the acculturation process is essential in successful resolution of the conflict that results from the contact of two firms in the M&A.



*As in other studies, there are flaws in this study. Firstly, is again the omission of the national culture differences in cross-border M&As. Secondly, it only studies horizontal M&As, the domain strengthening strategy, ignoring the importance of acculturation in other domain strategies.*

■ *Model 3: Larsson and Lubatkin's acculturation study (2001)*

According to the authors of this model, achieving acculturation represents a major post-acquisition challenge to acquiring firms. Their case survey method consisted of a sample of 50 M&As: 23 US domestic, 15 Swedish domestic and 12 Swedish cross-border. Their findings suggest a different and more optimistic view of acculturation from Cartwright and Cooper.

Cartwright and Cooper found that post-merger acculturation is largely predetermined by pre-merger cultural attributes and hence were outside management's control during the integration process. In contrast, Larsson and Lubatkin found that achieving acculturation depends mainly upon how the buying firm manages the informal integration process. They found that acculturation is best achieved when the buying firms rely on social controls through participation in activities such as introduction programmes, training, cross-visits, retreats, celebrations and similar socialisation rituals. They argue that from these activities employees will create of their own volition, a joint organisational culture regardless of expectations of synergies, the relative organisation size and differences in nationalities and cultures. This study also suggests that merging firms are not destined to clash because of different cultures or because the firms are from different nations. It all depends on the strength of the management.



*Being the latest study in acculturation, this study takes into account national culture differences in cross-border M&As, which is the latest trend in the literature. However, this study examined the domain strengthening strategy only ignoring the other domain strategies. The plus point of this study is that it touches on the growing interest of the impact of national culture on the post-acquisition process as cross-border M&As continue to turn in poor success results.*

Other studies that have also given particular attention to national cultural differences in M&A include: Calori et al (1994); Morosini and Singh (1994); Olie (1994); Weber et al. (1996); Very et al. (1997); and Gertsen et al. (1998). These studies have shown that persistent national cultural differences make organisational integration efforts more difficult than those within domestic settings. This is because particular cultural beliefs may be firmly rooted in national institutional systems (Calori et al., 1994) and undertaken by people that have been socialised into particular types of beliefs and values (Very et al., 1997). However, these studies only looked at the national cultural differences without incorporating the organisational cultural differences that may affect the post-acquisition process simultaneously. This is the common trend in most studies in this school, that is national culture and organisational culture issues have often remained separate. The issue of culture and its role in cross-border M&As is further elaborated in Chapter 3.

#### ***2.2.4 Process perspective school***

The central proposition in this school is that the management actions and the post-acquisition integration process determine the extent to which the potential benefits of the acquisition are realised. Its theoretical underpinnings are in behavioural theory (Cyert and Marchm 1963; Jemison and Sitkin, 1986). The main argument in this school is that strategic and organisational fit offer potential synergies but their realisation is entirely dependent on the ability of management to manage the post-acquisition process effectively (Kitching, 1967; Shrivastava, 1986; Hunt, 1990; Haspeslagh and Jemison, 1991; and Greenwood et al., 1994).



This school builds explicitly and implicitly on a couple of established theories. The first theory focuses on the cognitive limitations of managers to explain M&A phenomena, the escalating momentum and ambiguity in the integration process. The second theory adopts the decision process theory of Bower (1970) and Burgelman (1983) to shed light on the integration process (Haspeslagh and Jemison, 1991 p.348). Both theories are useful for researchers to understand why the ‘process can be a problem’ (Jemison and Sitkin, 1986) and why it is important to understand and learn to manage it.

The uniqueness of this school is that it recognises that the acquisition process itself is a potentially important determinant of acquisition outcomes (Jemison and Sitkin, 1986). This perspective recognises the important role of issues of strategic fit and organisational fit, which are pre-acquisition considerations as to the potential for value creation in acquisitions. It adds the consideration of how aspects of the acquisition decision-making and integration process can affect the final outcome. In a way, this school of thought incorporates issues discussed in the other three schools such as compatibility of firms and the type of acquisition and the impact on performance.

Being the ‘youngest’ school of thought, it still has potential to develop further theories of process management. A summary of the main studies in this school of thought is seen in Table 2.9.



Table 2.9: Process perspective school

Central proposition	Themes	Debate	Author(s)
Creation of value after acquisition  The actions of management, and the process of integration determines the extent to which the potential benefits of the acquisition are realised	Behavioural theory of the firm (Cyert and March, 1963; Jemison and Sitkin, 1986)	M&As are ‘dead on arrival’ no matter how they are managed	Sirower (1997); and You et al. (1986)
		Proper planning and control is needed to manage M&As	Howell (1970); and Haspeslagh and Jemison (1987 and 1991)
		Integration problems/obstacles	Lindgren (1982); Shrivastava (1986); Larsson (1990); Hunt (1990); Haspeslagh and Jemison (1991); Pablo (1994); and Nupponen (1996).
		Post-acquisition changes can be linked to corporate turnaround literature and timing of changes are crucial to the degree of post-acquisition success	Angwin (1998), and Child et al. (2001)
		Process problems that hinder synergistic benefits	Dundas and Richardson (1982); Lindgren, (1982); Shrivastava (1986); Jemison and Sitkin (1986); Napier (1989); Shanley and Correa (1992); Larsson, (1990); and Larsson and Finkelstein, (1999)
	Post-acquisition integration modes applied to different types of M&As	Enhance learning	Leroy and Ramanantsoa, (1997)
		Quality of the post-acquisition management depends on the effort made to prepare and plan the operation	Shrallow (1985); Shrivastava (1986); and Bain & Company (1999)
		Rationally inspired management was a good way of handling acquisitions regardless of their intent because it is conducive to consensus, clarification of goals and programming of actions	Shrallow (1985); and Shrivastava (1986)



			Not all M&As should be handled the same way	Haspeslagh and Jemison (1991); and Angwin and Wensley (1997)
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Source: Author



## **Post-acquisition - integration process**

Jemison's work (1986) was the initial study to link acquisition outcomes (improvements in competitive advantage) with the integration process through which those outcomes are achieved (interactions between members in both organisations leading to strategic capability transfer) and to detail some of the problems and facilitating factors arising in the process.

Then in 1987, Haspeslagh developed a contingency framework for acquisition integration that matches the strategic needs with organisational task requirements. This framework was considered useful "for conceptualising acquisition issues that cannot be divorced from either a strategic task or an organisational perspective...analyses of the source of synergy can only yield an evaluation of the potential sources of benefit, since it takes no account of the constraints inherent in the process of benefit realisation" (Haspeslagh and Farquhar, 1987, p.6).

Haspeslagh and Jemison (1991, p.32) further developed this framework and they argued, "that each company operates within a 'domain' that encompasses the set of businesses within which it is competitive, the capabilities that underlie them, with which its top management is familiar, and to which its corporate organisation is suited.". Due to their differences, there are different implications to approaching the decision-making process as well as the integration process. Since the integration process is the key to the success of an acquisition, it has to be carefully managed by a good team of people. Managers often described this stage as a difficult, time-consuming period, filled with uncertainty, and fraught with risks and setbacks.

There is agreement in the literature that integration is an interactive and gradual process in which individuals of the acquired firm and the acquiring firm learn to work together and cooperate in the transfer of strategic capabilities mentioned earlier on. The major challenge during any integration process (regardless of the type of M&A) is creating the right atmosphere. Reciprocal organisational understanding, willingness among employees to work together, capacity to transfer and receive capabilities and the ability to commit additional resources to foster the atmosphere



are crucial to creating the right atmosphere. Haspeslagh and Jemison (1991) have suggested (as seen in Figure 2.6) four integration approaches.

Figure 2.6: Types of acquisition integration approaches

		Need for strategic interdependence	
		Low	High
Need for organisational autonomy	High	Preservation	Symbiosis
	Low	[Holding]	Absorption

Source: Haspeslagh and Jemison (1991)

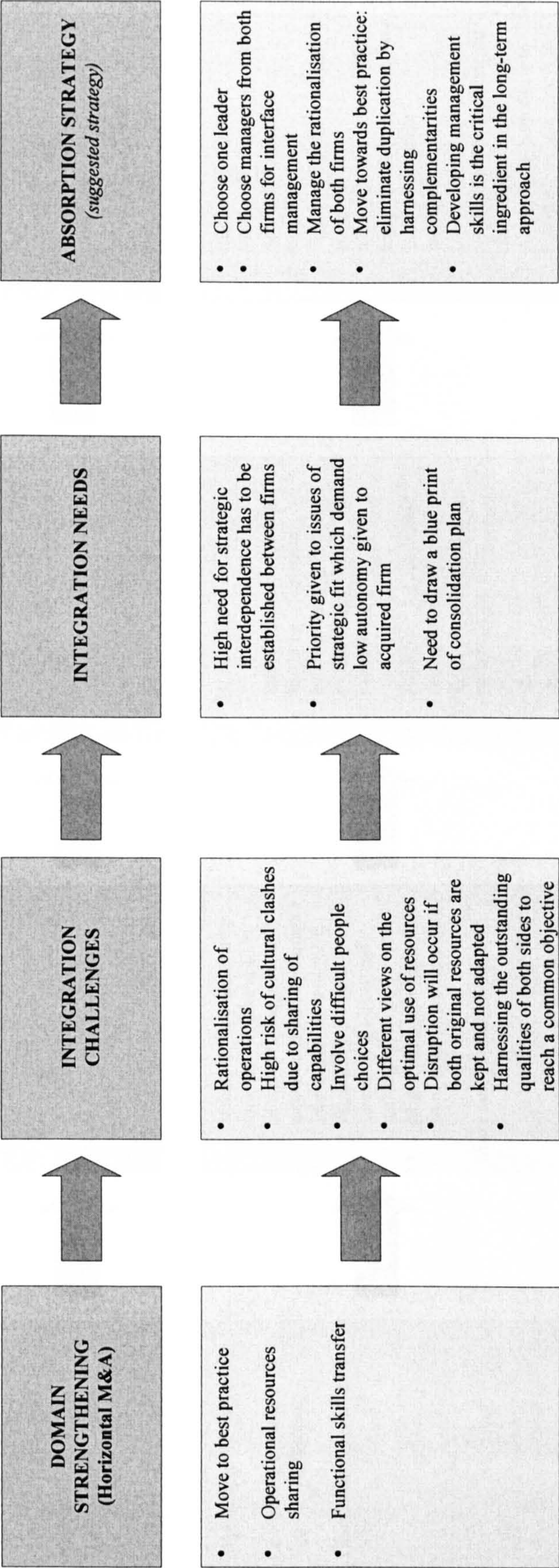
Figures 2.7, 2.8 and 2.9 summarise the organisational and integration challenges applicable to the domain strategy identified, the integration needs required for more effective transfer or sharing of capabilities, and the most likely choice of integration approach (adopting Haspeslagh and Jemison’s typology of domains), and integration activities that must be performed by managers for successful acquisitions.



*As in other schools of thought, there are also some flaws in this school. Firstly, the literature in this school is still in the theory-building stage, and hence has very little empirical evidence. Secondly, researchers have not provided propositions regarding the prediction of when problems are more likely to occur or how different managers across firms may react when these problems occur (Sirower, 1997). It has also not distinguished the different types of problems that occur in the different domain strategies. Thirdly, it does not consider the importance of managing cultural difficulties or acculturation modes during the post-acquisition process. Fourthly, a majority of the studies focus on strategic fit. Lastly, although the Haspeslagh and Jemison's framework is influential, they assume that a post-acquisition strategy remains the same throughout the process once chosen. There is no implication that the acquired firm may initially choose a certain integration strategy and later change the integration strategy to adapt to the external and internal forces of the marketing environment.*



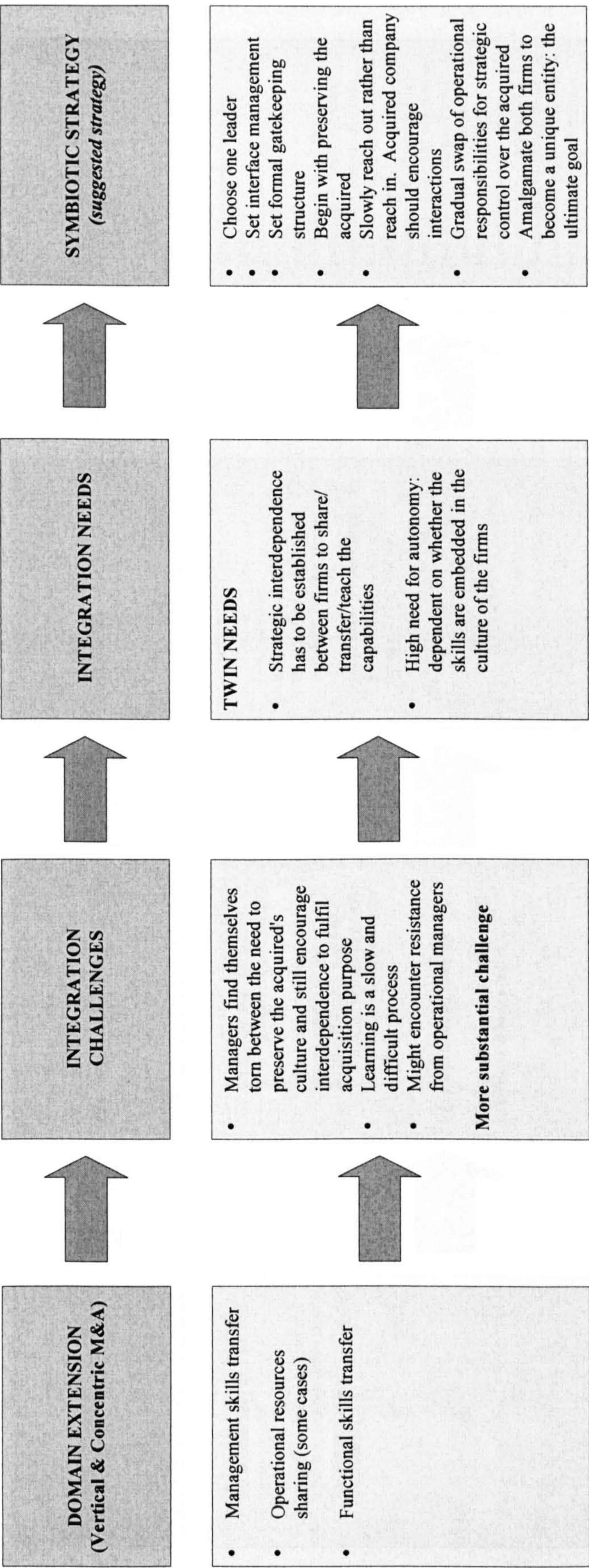
Figure 2.7: Domain strengthening-absorption strategy



Source: Author based on Haspeslagh and Jemison works (1991)



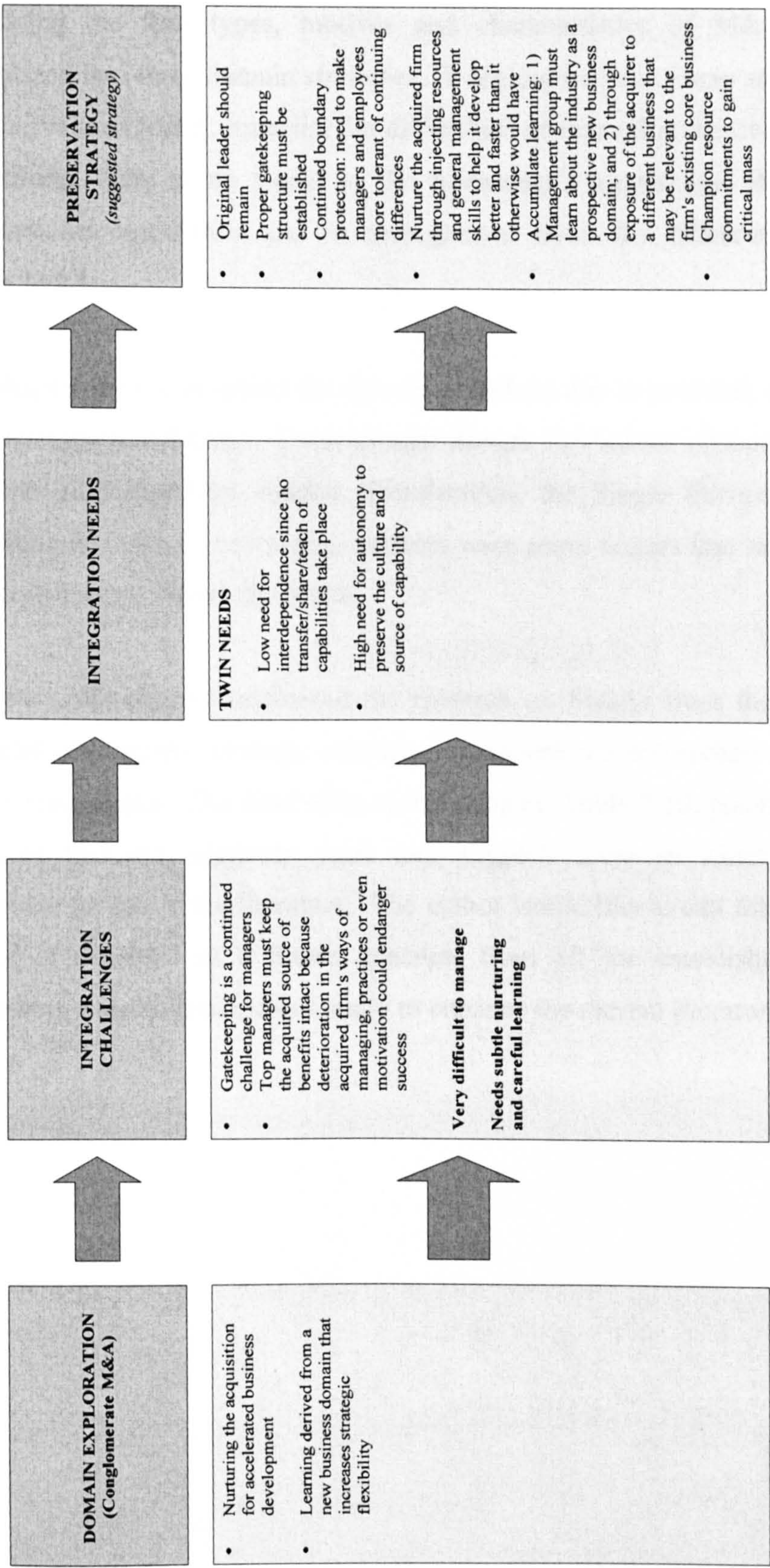
Figure 2.8: Domain extension-symbiotic strategy



Source: Author based on Haspeslagh and Jemison works (1991)



Figure 2.9: Domain exploration-preservation strategy



Source: Author based on Haspeslagh and Jemison works (1991)



## 2.3 CONCLUSIONS

In summary, this chapter introduced the basic conceptions of M&As. This included identifying the four types, motives and characteristics of M&As that can be categorized into three domain strategies. It highlighted that many studies focused on studying related M&A, ignoring the difficulties of managing the other M&As types. In addition, there is no study, to the researcher's knowledge, that looks at one multinational corporation and its management styles for different types of cross-border M&As.

The chapter then highlighted the drivers of M&As due to political, economic, social and technological factors. Even though drivers for M&As change over the years, advances in technology, market liberalisation, the Single European Market, and increasing incomes in developing markets were some factors that saw an increase of M&As in Europe during the 1990s.

Moreover, the chapter contrasted the research on M&As from the perspectives of financial economists, strategic scholars, organisational researchers and the process school researchers. The final table of this chapter, Table 2.10, posits the areas in the literature that are relatively weak and suggests areas in which a study could contribute further to the literature. The author would like to call this the '*integrative school of thought*' as it draws concepts from all the established four schools, suggesting a multi-dimensional study to enhance the current literature.



Table 2.10: Tackling the weaknesses of the various schools

School of thought	Area of study	Weaknesses	Current researcher’s proposal of ‘integrative school’
<b>Capital economics</b>	Wealth creation for shareholders and the economy as a whole	Researchers do not allow the integration process to take place to determine the result of the M&A	Should study deals that took place at least five to ten years ago
		The measurement of performance is highly dependent on stock price immediately before and after the deal	Should look at other performance measures such as profit, sales, employee growth tools over a period of time
<b>Strategic management</b>	Strategic fit and performance of acquiring and acquired firms	Researchers take it for granted that synergies only arise from related M&A (domain strengthening) not only ignoring the value of other M&A but also the difficulty of post-acquisition implementation	Should include other types of M&As such as domain exploration or extension to allow comparisons between the companies
		Does not take into account the possible cultural impact on performance	
		Measure performance for a period of 6 months to two years. Might be too short a period to fully understand the complexities of the post-acquisition process	
<b>Organisational behaviour</b>	The impact of acquisition on individual behaviour and organisation culture  The acculturation in M&A	Many studies focus on horizontal M&A	Study should include national cultural influences impact on behaviour
		Focuses too much on the impact of organisational culture on individual behaviour with little evidence of national culture impact  National and organisational cultural influences have remained as separate studies	Should study the interaction of national cultural and organisational cultural impact on the M&As in the same study



		Allows organisational issues outweigh a cross-border M&A strategic potential and consider integration issues from the standpoint of whether individuals accept the new situation	
<b>Process school</b>	The creation of value after the acquisition looking at the actions of management and the process of integration	<p>Many studies focus on horizontal M&amp;As</p> <p>Mainly concern with domestic M&amp;As paying little attention to cross-border M&amp;As</p> <p>Does not take into account the cultural differences and the possible impact on value creation</p> <p>Assumes that the post-acquisition process in one long phase and not divided into sub-phases with different challenges at each stage</p>	<p>Should study cross-border M&amp;As</p> <p>Should take into account cultural differences in cross-border M&amp;As</p> <p>Should look at the post-acquisition process for a period longer than the usual two years</p>

Source: Author



M&A studies tend to measure the performance of post-acquisition process for a period of two years after the deal. This probably explains why reported failure rates are high because, measuring performance so soon after the acquisition provides insufficient time for the management and employees of the firms involved in the M&A to settle down and adjust to post-acquisition changes. In addition, it has been identified that different domain strategies require different amount of time for integration to complete (as suggested by Nahavandi and Malekzadeh, 1988). Therefore, it makes sense to measure all the different domain strategies for the same amount of time after the deal. For example, to monitor the different strategies carried out by the same MNE for at least seven years after the acquisition to identify and monitor any differences or similarities of management actions.

In the next chapter, the reader will be introduced to the extensive cultural literature.



## CHAPTER 3

### NATIONAL & ORGANISATIONAL CULTURES

#### *Chapter Objectives:*

- To discuss the gaps in the cultural literature in relation to M&As
  - By highlighting the important literature that identified national culture influences on M&As
  - By highlighting the important literature that identified organisational culture influences on M&As
- To define national and organisational cultures and their different approaches to understanding them
  - By identifying the various dimensions of each cultural level
  - By discussing the landmark cultural studies in terms of strengths and weaknesses



### 3.0 INTRODUCTION

Culture has always generated interest in international business research since the late 1970s and since the late 1980s, there has been a general agreement in the literature that studying the human factor in mergers and acquisitions process provides a far better understanding of their success and failure outcomes (Kimberly and Quinn, 1984; Kilmann et al., 1986; Pritchett, 1987; Buono and Bowditch, 1989; Cartwright and Cooper, 1992; Gilkey, 1991; Lubatkin and Lane, 1996; and Child et al., 2001). As Gilkey (1991) argues:

*“The high percentage of failure is mainly due to the fact that mergers and acquisitions are still designed with business and financial fit as primary conditions, leaving psychological and cultural issues as secondary concerns. A close examination of these issues could have brought about a learning process, directed to successfully managing such ventures”*

*Gilkey, 1991, p.331*

The need to diagnose culture is relevant in mergers, joint ventures and acquisitions, where managers from different countries, industries, and companies need to co-operate to achieve the benefits of the alliances. Managers involved in international M&As, for example, must expect to find large or small differences in the behaviour of individuals and groups within the two organisations during the integration process. The effects of culture on specific management functions are particularly noticeable in international M&As because there is an attempt to impose one's own values and systems on another society.

This chapter is divided into three sections. The first section begins with a brief history of the evolution of culture studies in M&A literature. The second section discusses the basic conceptions of NC and the schools of thought. Finally, in the third section, basic conceptions of OC and its various schools of thought are presented.



### **3.1 EVOLUTION OF CULTURE RESEARCH IN M&As FROM LATE 1980s**

In the 1980s and 1990s, the time of merger frenzy and high failure rates led to a proliferation of studies taking a cultural perspective on M&As focusing on organisational-level (Nahavandi and Malekzadeh, 1988; Buono and Bowditch, 1989; Datta, 1991; Chatterjee et al., 1992; Mirivis and Marks, 1992; and Weber, 1996) or national-level dynamics (Olie 1994; and Gertsen et al., 1998). These studies have been motivated by a need to understand and manage the often-encountered post-merger organisational problems.

The literature at this time focused mainly on the strategic issues such as planning and negotiating the M&A deal. The central theme in these cultural studies has been that decision makers rarely pay enough attention to cultural differences while concentrating on more strategic issues (Jemison and Sitkin, 1986; Kleppestø, 1993; and Greenwood et al., 1994).

Identifying and describing the corporate culture differences were very much the focus of these earlier cultural studies in M&As. Specific routines and repertoires have been shown to be critical to post-acquisition performance, and to vary significantly across countries in direct association with the national cultural distance between them (Hofstede, 1980; and Jemison and Sitkin, 1986). There were very few studies associating the difficulties of integrating an M&A with national culture.

However, in the later 1980s, the impact of national culture crept into the literature through the identification of ‘national culture distance’. This distance in the norms, routines and repertoires for organisational design, new product development, and other aspects of management that were found in the acquirer and the target countries of origin (Kogut and Singh, 1988).

Then, Haspeslagh and Jemison (1991) identified five dimensions that governed M&As: 1) involvement of top management, 2) time horizon of managers, 3) consensual versus individual decision, 4) understanding of competition and 5) analytical versus political decision-making. The first three are related to Hofstede’s



(1997) power distance, long-termism and individualism-collectivism dimensions respectively. However, the main limitation of these studies is that only the differences of cultures observed are described. Solutions on how to deal with these problems or the influences on performance were not developed.

There has always been an issue of whether national culture affects the M&A process. Hall (1995) argued that national cultural differences play an indirect role, which may or may not be important. According to him, they are a supplementary complication. Unlike organisational culture, national culture is hard to change; nevertheless, organisational culture changes slowly (Hall, 1995).

However, in the late 1990s, the importance of national culture on the M&As implementation process began to take precedence among academics with the publication of Morosini's study (1998). He first highlighted the importance of the role of national cultural distance on performance. According to him, cultural and organisational issues play a major role in the success or failure of an acquisition, particularly during the implementation phase when people, organisation and operations need to be coordinated and progressively combined. In an earlier cross-border acquisition study, Morosini and Singh (1994) involving Italian companies (as either target or buyer) found that some post-acquisition strategies were more culture-compatible than others.

Until recently, cultural differences as a source of value have received little attention in studies. In the available studies, there are conflicting views. On the one hand, academics are claiming that M&As between culturally distant countries seem to enhance value. Morosini et al.'s (1998) qualitative interviews with executives of firms undertaking cross-border acquisitions revealed that a greater national cultural distance (as defined by Kogut and Singh, 1998) between the acquirer and the target seemed to enhance performance. Krishnan et al. (1997) have also illustrated how cultural diversity can benefit top management decision-making.



On the other hand, these above findings go against the more traditional pattern of internationalisation proposed by theorists (Johanson and Vahlne, 1977) where the higher the cultural distance between the acquirer and the acquired firm, the higher the degree of conflict would occur (Jemison and Sitkin, 1986). Also, inferring from Trompenaars' (1993) and Hofstede's (1997) works, research designs illustrated how mergers between culturally closer national cultures indeed lead to better outcomes than those between more distant cultures (Morosini and Singh, 1994). Furthermore, a general finding of the studies of cross-border mergers has been that national cultural differences produce particularly strong impediments to integration and thus create more cumbersome problems than national settings (Kogut and Singh, 1988; Morosini and Singh, 1994; Olie, 1994; Gertsen et al, 1998; and Vaara, 2000). The reasons for this can be traced to different national institutional systems sustaining particular beliefs and practices (Very et al., 1997; and Angwin and Savill, 1997). This controversy remains unsolved today.

Then in the early 21<sup>st</sup> century, the cultural effects on post-acquisition changed and management were highlighted to be important and crucial to the success of M&As (Child et al., 2001). These authors argue that the cultural perspective has two main implications for post-acquisition changes. Firstly, their research suggested significant differences in the management practices favoured by acquiring companies of different nationalities or cultural regions. Secondly, there is a correlation between problems in effecting post-acquisition change and the width of the cultural gap between the acquiring and acquired company. Their arguments are summarised in Table 3.1.



Table 3.1: Cultural implications on post-acquisition changes

Cultural implications	Areas affected by culture	Sensitive issues addressed
Differences in management practices	<ul style="list-style-type: none"><li>▪ Strong in culturally sensitive issues</li><li>▪ Time orientation</li><li>▪ Interpersonal relations</li></ul>	<ul style="list-style-type: none"><li>▪ Strategic time horizon</li><li>▪ Centralisation of authority</li><li>▪ Modes of communication</li><li>▪ Reward systems</li></ul>
Problems of culture gaps	<ul style="list-style-type: none"><li>▪ Potential of being exacerbated or mitigated by the approach adopted by acquiring company</li></ul>	<ul style="list-style-type: none"><li>▪ Rationalisation</li><li>▪ Redundancy</li></ul>

Source: Adapted from the text of Child et al. (2001)

The sensitivity of post-acquisition management is likely to increase when it is cross-border in scope, with acquirer and acquired coming from different countries, bearing different management philosophies and practices as a result (Child et. al., 2001). The failure of most M&As to improve productivity can often be attributed to the difficulties of combining different management styles and practices (UNCTAD, 1999).

To the current author’s knowledge, very few studies look at the interactions of national culture and organisational culture in the M&As process. Many of the studies of how national or organisational cultures influence the post-acquisition process tend to remain separate. Table 3.2 highlights the key studies that embraced both in the M&As literature.



Table 3.2: Key studies in the M&As literature that relates to culture

Issue	Study	Cultures examined	Findings
Cultural fit and post-acquisition performance	Datta (1991)	Domestic deals in the US	Differences in management styles lead to lower post-acquisition performance
Cultural fit and shareholder value	Chatterjee et al. (1992)	Domestic deals in the US	Larger cultural differences lower the value gained in mergers
Cultural distance and post-acquisition success	Morosini and Singh (1994)	Cross-border acquisitions involving Italian and UK firms	The interaction of strategy and cultural distance affects post-acquisition performance
Types of control in post-acquisition integration	Calori et al. (1994)	Cross-border acquisitions involving French and UK firms	The culture of both purchaser and acquisition affects the integration mechanisms
Relative standing and the performance of acquisitions	Very, Lubatkin, Calori and Veiga, (1997)	Cross-border acquisitions involving French, UK and US firms	Similar organisational cultures lower performance problems
Effects of national cultural distance and post-acquisition performance	Morosini, Shane and Singh (1998)	Cross-border acquisitions involving Italian and UK firms	Found a positive association between national cultural distance and cross-border acquisition success
Effects of national culture on post-acquisition change	Child et al. (2001)	Cross-border acquisitions involving US, German and French firms	Found positive associations between national culture and the post-acquisition change process

Source: Adapted from Cray and Mallory (1997) and updated by current author



### **3.2 BASIC CONCEPTIONS OF NATIONAL CULTURE**

There are many levels of culture and national culture or regional culture is the highest level (Trompenaars, 1993; Schneider and Barsoux, 1997), like British and Western Europe; and Singaporean and Asia-Pacific.

#### ***3.2.1 Meaning of national culture***

Studies with a focus on national-cultural differences assume that these have a strong influence on individual values and worldviews. The assumption is traced back to the cross-cultural psychological studies which have argued that individuals' values, norms and general world views are shaped by:

- The behaviours which were rewarded or penalised from early childhood (Barry and Child, 1957);
- The norms and values that are transferred by socialisation and training (Weeks et al., 1982); and
- The degree of social pressure to conform (Claeys, 1967; Chandra, 1973; and Huang and Harris, 1973).

Although several studies failed to find strong cross-cultural differences (Minturn and Lambert, 1964; Haire et al. 1966; and Lambert et al. 1979), others nonetheless support the existence of cultural differences in values and work views (e.g. Kluckhohn, 1946; Quinn and Holland, 1987; Fisher, 1988; Trompenaars, 1993; Hofstede, 1994; and Bigoness and Blakely, 1996). Support was also reported for cultural differences affecting work related values, worldviews, beliefs and behaviours of organisational members (e.g. Geletkanycz, 1997), although some of the approaches taken in that work are not uncontroversial (Markóczy and Goldberg, 1998).

From the various definitions, the following points could be made on what culture comprises:

- Each culture has its own unique set of values, beliefs, attitudes, and related behaviours;



- Cultures are shared and inherited;
- People often have a very strong sense of cultural belonging without necessarily being able to describe what their culture consists of;
- People may not even be aware of their culture until they are exposed to another different, but equally valid culture;
- We see people as being from different cultures if their way of life as a group differs significantly from our own;
- Cultural boundaries are relatively fluid; people may operate in a number of different cultural groups and exhibit different behaviour patterns within each. In addition, many types of behaviour are common across cultures; and
- Culture can be learned, unlearned or adapted.

### ***3.2.2 Different approaches to understanding national culture***

Researchers have been trying to define national culture dimensions since the 1960s (Table 3.3). Some theorists have attempted to compare societies or cultures by using a few key cultural elements, which are held generally by people within a given culture. Culture variables result from unique sets of shared values among different groups of people. According to many authors, most variations between cultures stem from underlying value systems, which cause people to act and behave differently under similar circumstances.

Values are society's ideas about what is good or bad, right or wrong. They determine how individuals will probably respond in any given circumstance. It is a powerful component of society's culture and is communicated through the eight subsystems (Harris and Moran, 1994) known as – kinship, education, economy, politics, religion, associations, health and recreation – from generation to generation – although the interaction and pressure among these subsystems (more recently from foreign cultures) may provide impetus for slow change.



Table 3.3: Definitions of national culture

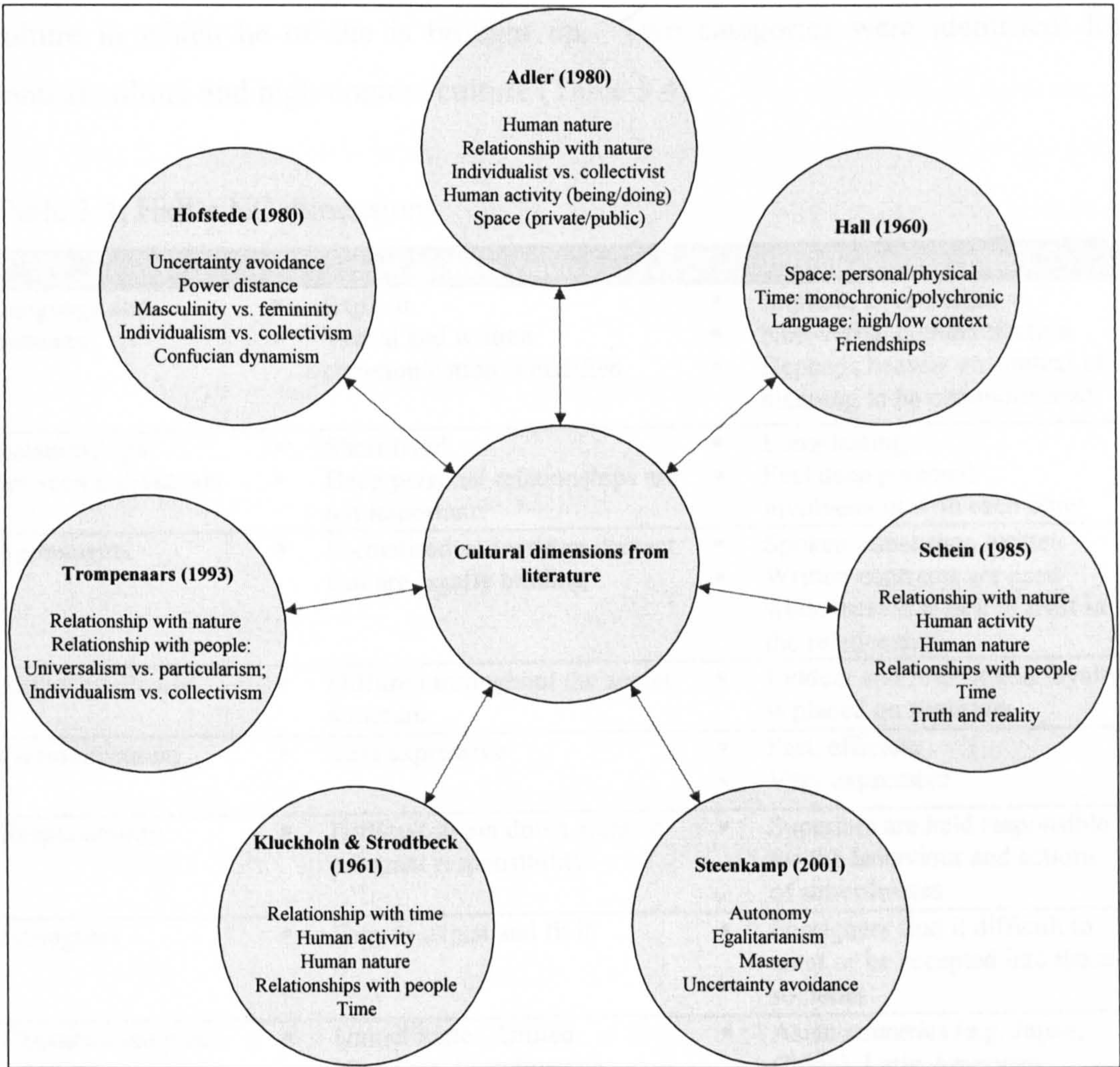
Author (s)	Definitions of NC
Linton (1945), p.21	<i>'A culture is the configuration of learned behaviour and results of behaviour whose component elements are shared and transmitted by the members of a particular society.'</i>
Goodenough, W. (1971)	<i>'Culture is a set of beliefs or standards, shared by a group of people, which helps the individual to decide what is, what can be, how to feel, what to do and how to go about doing it.'</i>
Goffman, E. (1974), p.14	<i>'Culture concerns systems of meaning, ideas and patterns of thought. It represents more a model for behaviour of member of any given group than a model of their behaviour.'</i>
Trompenaars (1993), p.13.	<i>'Culture is a shared system of meanings. It dictates what we pay attention to, how we act and what we value.'</i>
Hofstede (1994), p.5	<i>'...the collective programming of the mind which distinguishes the members of one group or category of people from another.'</i>
Czinkota and Ronkainen (1995), p.130	<i>'...an integrated system of learned behaviour patterns that are distinguishing characteristics of the members of any given society.'</i>

Source: Author



Various well-known cultural authors have argued what these NC dimensions consist of and these are summarised in the Figure 3.1.

Figure 3.1: Cultural values from landmark studies



Source: Author, drawn from the various works mentioned

Among these mentioned studies, there is a lack of agreement on what constitute cultural dimensions. However, the main frameworks adopted by other researchers today are derived from Hofstede’s (1980) and Trompenaars’ (1993) works.

This remaining section highlights the most quoted frameworks drawn from different decades from as early as the 1960s with Hall’s framework, the 1980s with Hofstede’s framework and the 1990s with Trompenaars’ framework.



**Hall’s framework (1960)**

The central argument of Hall’s approach to comparing cultures is that people tend to interpret and create communications in reference to the context within which they are operating. Hall believed that an individual searches for meaning in relation to the culture in which he or she is brought up. Two categories were identified: low-context culture and high-context culture (Table 3.4).

Table 3.4: Hall’s NC dimensions

Low-context culture		High-context culture	
Language and message	<ul style="list-style-type: none"><li>▪ Explicit</li><li>▪ Verbal and written communication is codified</li></ul>	<ul style="list-style-type: none"><li>▪ Implicit, covert clues</li><li>▪ Non-verbal communication</li><li>▪ Depends heavily on context of meaning to be communicated</li></ul>	
Relationships between individuals	<ul style="list-style-type: none"><li>▪ Short lived</li><li>▪ Deep personal relationships are not important</li></ul>	<ul style="list-style-type: none"><li>▪ Long-lasting</li><li>▪ Feel deep personal involvement with each other</li></ul>	
Agreements	<ul style="list-style-type: none"><li>▪ Formalised and written contact that are legally binding</li></ul>	<ul style="list-style-type: none"><li>▪ Spoken rather than written</li><li>▪ Written contracts are used when there is a lack of trust in the relationship</li></ul>	
Authority /Power	<ul style="list-style-type: none"><li>▪ Diffused throughout the social structure</li></ul>	<ul style="list-style-type: none"><li>▪ Evident and respect and loyalty is placed on superiors</li></ul>	
Communication	<ul style="list-style-type: none"><li>▪ Less expressive</li></ul>	<ul style="list-style-type: none"><li>▪ Fast, efficient</li><li>▪ Very expressive</li></ul>	
Responsibility	<ul style="list-style-type: none"><li>▪ Difficult to pin down areas of personal responsibility</li></ul>	<ul style="list-style-type: none"><li>▪ Superiors are held responsible for the behaviour and actions of subordinates</li></ul>	
Foreigners	<ul style="list-style-type: none"><li>▪ Easy to adjust and fit it</li></ul>	<ul style="list-style-type: none"><li>▪ Foreigners find it difficult to enter or be accepted into these societies</li></ul>	
Country examples	<ul style="list-style-type: none"><li>▪ United States, United Kingdom, Scandinavian countries</li></ul>	<ul style="list-style-type: none"><li>▪ Asian countries (e.g. Japan, China), Latin American countries, Arab countries</li></ul>	

Source: Hall (1960)

Hall’s model is based on qualitative insights into cultures rather than on quantitatively defined variables. The model does not attempt to place countries at either ends of the two extremes but rather positions them loosely on a continuum between the two. It provides insights into values that will determine how management tasks and functions are performed across cultures.



### *Hofstede's NC framework (1980)*

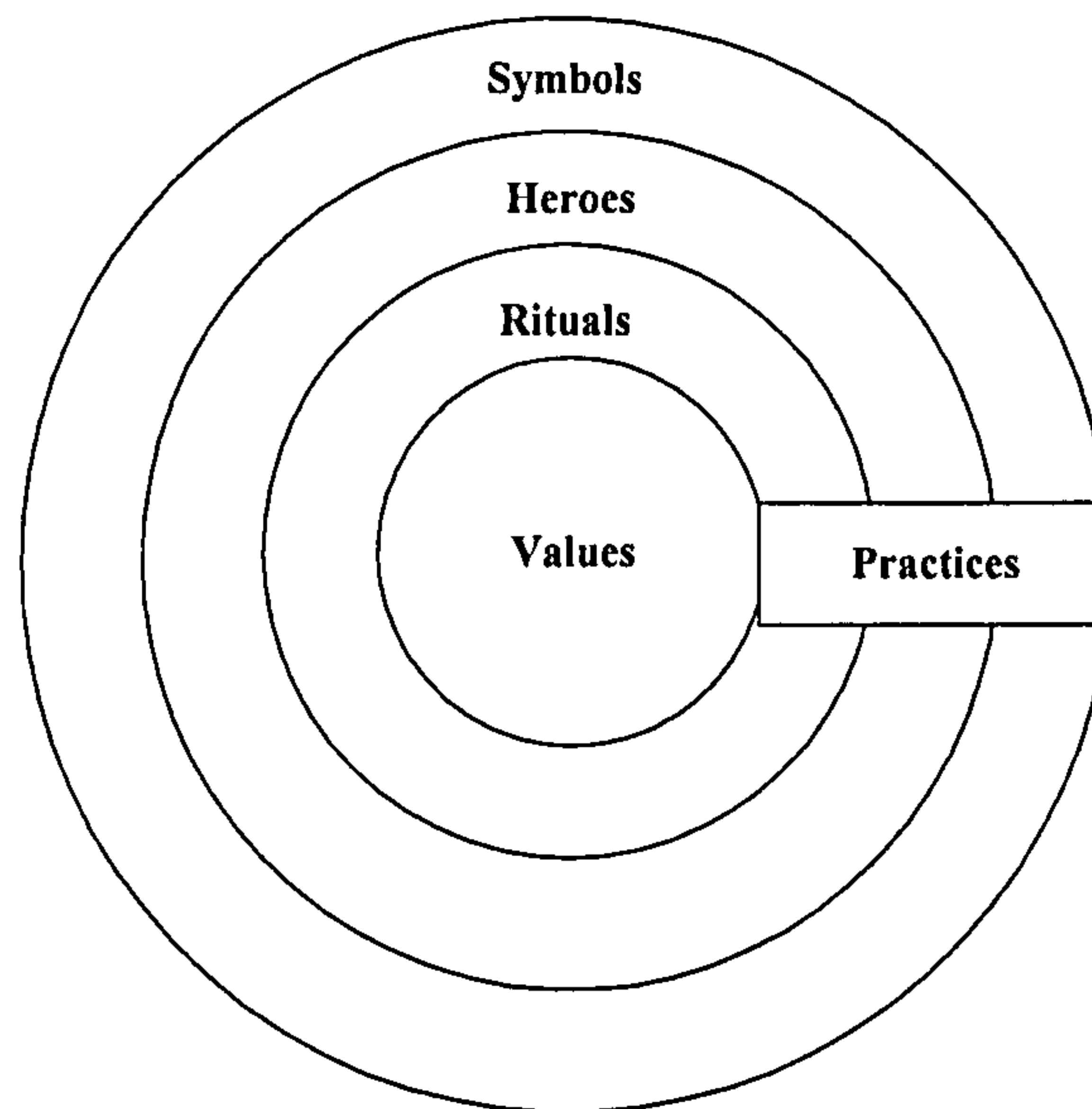
The most popular culture model that is extensively used today is the one developed by Geert Hofstede in 1980, which was based on a large statistical survey of the employees of one multinational organisation. This piece of work had such an impact on the comparative field as a whole that few studies omit a reference to it (Sondergaard, 1994) in terms of praise or criticism. The most imposing feature of this work is the sheer scale where data was gathered from 116,000 IBM employees in over forty countries (in 1968 and 1972). Since then, both the size of the sample and the geographic coverage has been unprecedented (Cray and Mallory, 1998).

His four categorical classifications of manifestations of culture at different levels are: symbols, heroes, rituals and values (Figure 3.2). Symbols, heroes and rituals are described as practices as they are visible manifestations of culture.

- *Symbols* are words, acts, gestures or objects that have a particular interpretation within a culture. This is the most superficial layer of the 'onion diagram'. The meaning of the term symbols roots in anthropology. Symbols are 'objects, acts, relationships, or linguistic formations that stand ambiguously for a multiplicity of meanings, evoke emotions and impel action' (Cohen, 1976).
- *Heroes* are individuals (dead or alive, real or imaginary) who serve as models for behaviour and this is because they possess certain characteristics which are thought to be virtues for a certain group of individuals.
- *Rituals* according to Hofstede (1990, p.291) are 'collective activities that are technically superfluous but are socially essential within a culture - they are therefore carried out for their own sake'.



Figure 3.2: Hofstede's 'onion diagram' manifestations of culture



Source: Hofstede et al. (1994)

- The *values* layer is the core of culture according to Hofstede. They represent 'abstract preferences' and broader tendencies to prefer certain states of affairs to others (Hofstede, 1998, p.487). They deal with feelings such as 1) evil vs. good; 2) ugly vs. beautiful; 3) paradoxical vs. logical; 3) irrational vs. rational; 4) dirty vs. clean and 5) natural vs. unnatural. These values are general, non-specific feelings that are often 'unconscious, rarely discussible' and difficult to observe and can only be inferred on from the way people act under various circumstances.

Based on this framework of culture, his IBM study was concerned with culture in relation to multinational activity. Factor analysis of the responses to thirty-two questions about practices and attitudes revealed four underlying cultural dimensions, which he labelled as: 1) power distance, 2) uncertainty avoidance, 3) individualism, and 4) masculinity. A fifth dimension was added later which was related to time (Hofstede and Bond, 1988).



- *Power distance*

This dimension indicates the extent to which a society accepts the unequal distribution of power in institutions and organisations. Hofstede argued that organisations in countries with high power distance would tend to have more levels of hierarchy, a higher proportion of supervisory personnel, and more centralised decision-making. Status and power would serve as motivators, and leaders would be revered or obeyed as authorities. A high score represents a belief in well-defined order and is reflected in organisations with formal and hierarchical structures. A low score represents greater egalitarianism among people and a more organic organisational design.

- *Uncertainty Avoidance*

This dimension measures the extent to which the members of a culture feel threatened by uncertain or unknown situations (measured from strong to weak). In other words, to what extent, cultures accept ambiguity and uncertainty about the future. A high score represents risk averseness and a preference for planning. Cultures with high levels of uncertainty tend to be prone to anxiety and put considerable effort into preparations for possible future events. Such cultures may be less willing to accept risks and may be resistant to change. Organisations would tend to have more formalisation evident in greater amount of written rules and procedures. In addition, there would be greater specialization evident in the importance attached to technical competence in the role of staff in defining jobs and functions.

- *Individualism vs. Collectivism*

Hofstede (1980) defines individualism-collectivism as the relationship between the individual and the collectively that prevails in a particular society. Many countries differ in this particular characteristic. A high score reflects a society that emphasises the role of the individual over the group, whereas a low score shows the individual behaving subservient to the collective good of the organisation.

This is considered one of national culture's most basic dimensions in which countries differ. Evidence suggests that differences along this dimension of culture account for



major differences in managerial assumptions and practices (Laurent, 1986). Thorough understanding of this dimension of culture will shed light on differences in managerial perceptions on performance. Collective countries such as Latin America, Asia and Africa embrace interdependence, family security, social hierarchies, co-operation, and low levels of competition (Triandis, 1989, 1990).

- *Masculinity vs. Femininity*

This dimension should not be confused with sexist stereotyping. The definitions by Hofstede (1980) are as follow:

*“Masculinity pertains to societies in which social gender roles are clearly distinct (i.e. men are supposed to be assertive, tough, and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life).”*

*“Femininity pertains to societies in which social gender roles overlap (i.e. both men and women are supposed to be modest, tender and concerned about quality of life).”*

A high score represents greater masculine values and a low score more feminine values.

- *Long-term vs. short-term orientation*

Values associated with long-term orientation are thrift and perseverance; values associated with short-term orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'. This dimension was originally called 'Confucian dynamism'. However, the dimension also applies to countries without a Confucian heritage.

However, caution should be undertaken when interpreting his results because the research findings are based on a sample drawn from one multinational firm and because Hofstede does not account for within-country differences in multicultural countries.



Although this impressive study addressed the question of influence of culture on organisational structure and made a major contribution to the study of organisations within the culturalist approach, there are many criticisms too (table 3.5). Some of the criticisms are that Hofstede did not empirically investigate the relationships between the four dimensions of work-related values, and the attitudes and the structures of the organisations whose managers participated in the study. Also, that the relationship is conceptual and speculative.

However, there is also some concern that the country differences found in Hofstede's research are not representative due to the single company sample. Further research by him and others support these dimensions and the preferences for different profiles of organisation. Table 3.5 highlights some of the criticisms and strengths of Hofstede's research. For further analysis of his framework, refer to Tayeb (1994).



Table 3.5: Criticisms and strengths of Hofstede’s research

	Criticisms	Strengths
Dimensions	The dimensions overlap (Tayeb, 1988)	Framework for planning and hypotheses generation
	Not all dimensions are reflected. Dorfman and Howell (1988) documented the criticisms of the domain of items that measure the individual dimensions and the labelling of them	Measures help reduce subjectivity
	Self-reference criteria of researchers limits the value of the model	Cross-country comparisons on major dimensions can be made
	Scales are a ‘hodge-podge’ of items ‘few of which relate to the intended constructs’ (Robinson, 1983:130)	Shackleton and Ali (1990); and Punnet and Withane (1990) found that the dimensions were supported in their studies
Sample	Sondergaard (1994) question the use of attitude-survey questionnaires as a base to infer cultural values	The scope of the model is tremendous
	The study looked at country differences rather than sub-cultures	It is still the most used study in many published papers
	Hunt (1981) questions the sampling problem of the suitability of using one multinational	Redding (1994) argued that Hofstede’s work provides a paradigm for comparative research
	Tayeb (1988) argues that the discussion of the impact of cultures on organisation structures is not possible as the data comes from the same company	
Measuring cultural changes	Two separate surveys took place: 1968 and 1972 to observe the notion of cultural change. The brief discussion of cultural change undermines the research as it questions the stability of culture as an influence on behaviour (Cray and Mallory, 1998)	No other research is better than Hofstede – as in scale and depth

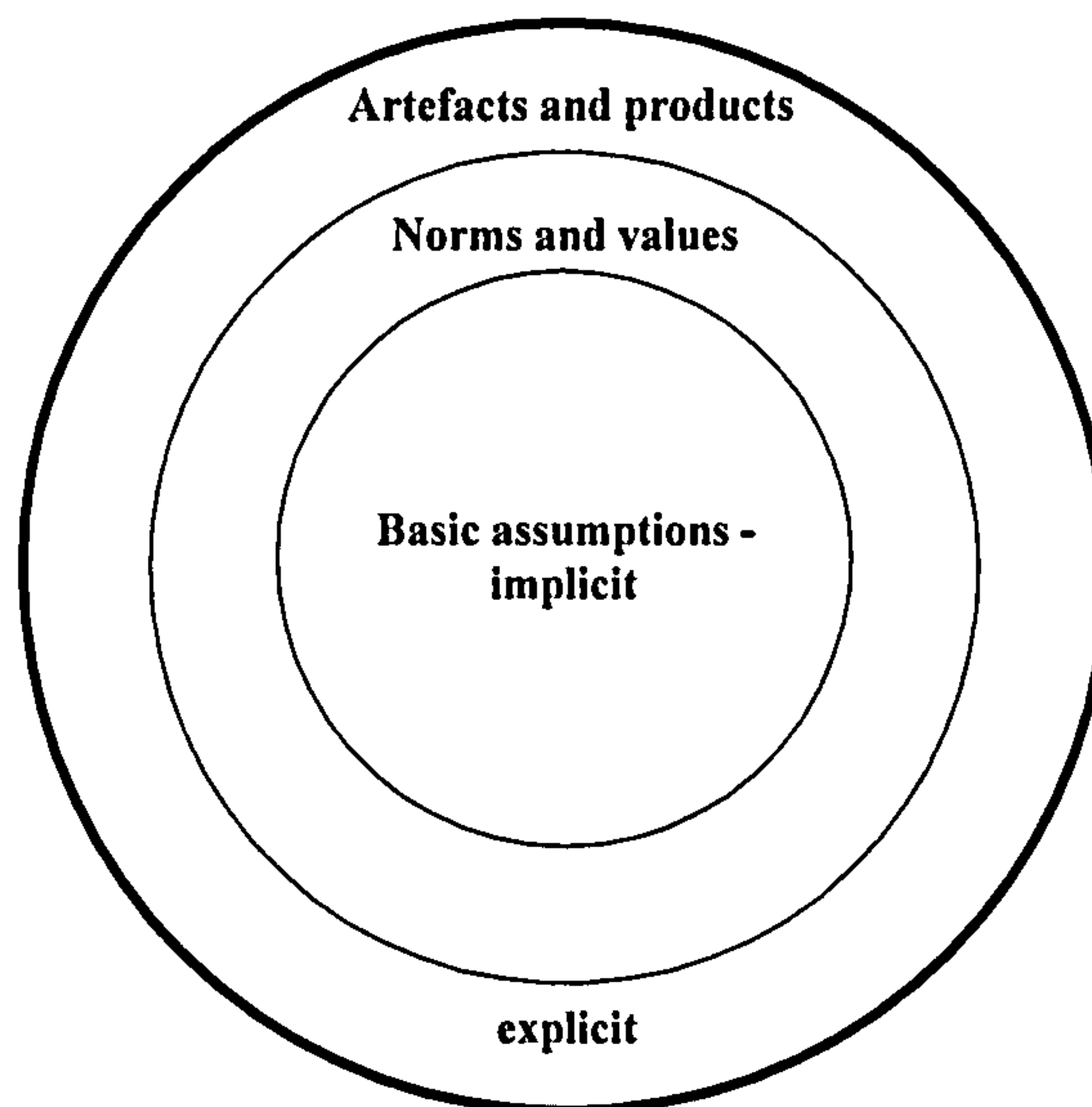
Source: Author



### ***Trompenaar's NC framework***

The other frequently cited researcher in the national culture area is Trompenaars (1993). His empirical research looked at the managerial subcultures found across different national cultures. The study included 30 companies spanning over 50 countries. Like Hofstede (1980), believes that there are several layers of culture, from explicit to implicit in nature as seen in Figure 3.3.

Figure 3.3: Trompenaars' model of culture



Source: Trompenaars (1993)

- *Artefacts and products* form the outer layer of culture. These are considered explicit in nature because they are the observable symbols of culture such as language, food, building, houses, monuments, agriculture, shrines, markets, fashions and art.
- The middle layer reflects a deeper layer of *norms and values* of an individual group. Norms are the mutual sense a group has of what is 'right' or 'wrong' and can be developed formally through written laws and informally through social control. Values determine the definition of 'good and bad', are closely related to the ideals shared, and are the desirable behaviour of the group.



- *Assumptions*, is the core of the framework and provides reasons why there are basic differences in values between cultures. According to Trompenaars (1993) this goes back to the core of human existence on how each group organises themselves to find a way to deal most effectively with their environments, given their available resources.

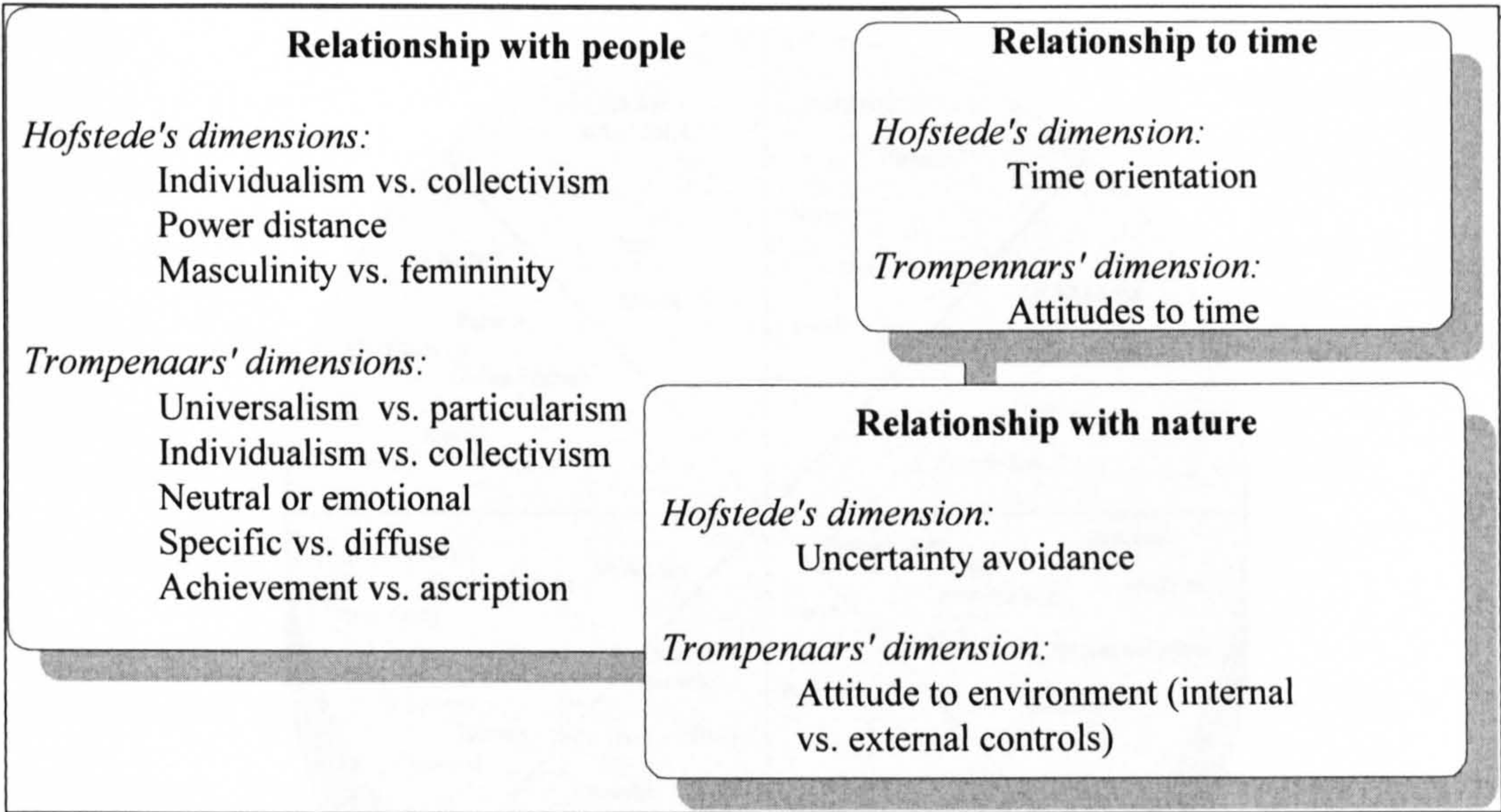
Culture of a group varies according to how each culture distinguishes itself from others by the specific solutions it chooses to certain problems (Kluckhohn and Strodtbeck, 1961). Trompenaars (1993) has classified these problems under three headings arising from relationships with people; those that come from the passage of time; and from the environment. Through these classifications, he developed seven dimensions, namely

- *Universalism vs. particularism (rules vs. relationships)*
- *Individualism vs. collectivism (the group vs. the individual)*
- *Neutral or emotional (the range of feelings expressed)*
- *Specific vs. diffuse (the range of involvement)*
- *Achievement vs. ascription (how status is accorded)*
- *Attitudes to time (how time is managed: sequential vs. synchronic)*
- *Attitudes to environment (degree of control over nature)*

There are similarities or overlaps in the dimensions identified by Hofstede (1980) and Trompenaars' (1993) works. The overlap of dimensions is broadly classified into three categories: 1) relationship with people; 2) relationship with time; and 3) relationship with nature as seen in Figure 3.4.



Figure 3.4: Overlap of Hofstede’s and Trompenaars’ cultural dimensions



Source: Adapted from the works of Hofstede (1980) and Trompenaars (1993)

3.3.3 Workplace manifestations of differences in NC

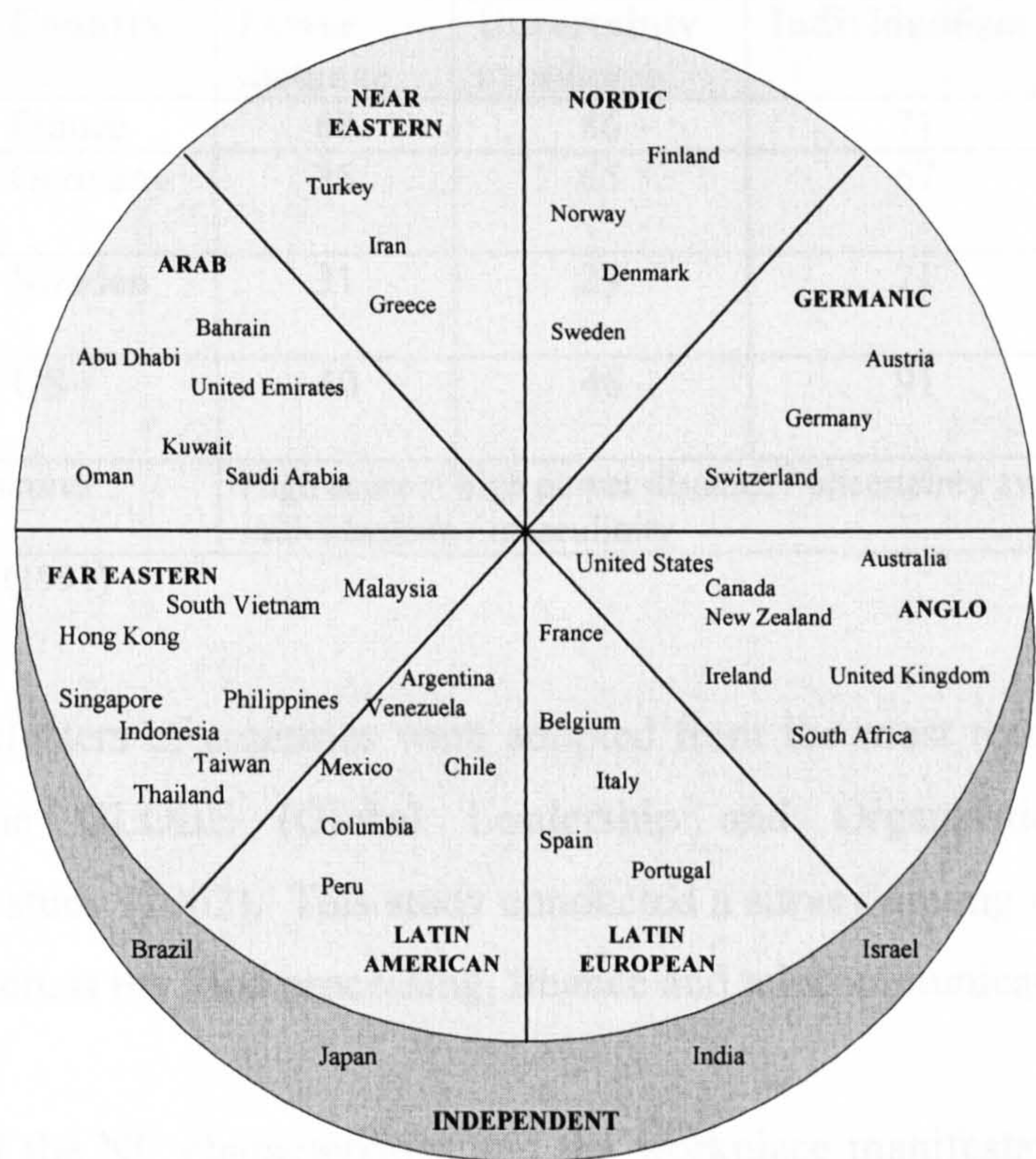
Country clusters have geographical, religious, linguistic, or historical ties that cut across national boundaries (Schneider & Barsoux, 1997). Research on managerial values, work attitudes, and leadership styles in different countries has in fact, confirmed these similarities, indicating this type of regional culture (Figure 3.5).

Schneider & Barsoux’s (1997) research indicates similarities between French and Italian managers (Latin) that distinguish them from Germanic cluster of managers. Japan, Brazil, India and Israel fall outside of the main clusters because of their unique historical and cultural heritages.

Religion may play an important role. For example the influence of Catholicism may be responsible for the similarities within and between Latin Europe and Latin America; while the influence of Islam accounts for the similarities in Malaysia, the Middle East, and North Africa; and Confucianism for similarities among Asian countries. The Anglo cluster though geographically dispersed, is a product of a shared linguistic and colonial heritage.



Figure 3.5: Country clusters



Source: Ronen and Shenkar (1985)

For the purpose of this study, the researcher only elaborates the NC of four countries. The reason for this choice of countries is that they were among the most acquisitive nations involved in cross-border M&As as discussed in Chapter 1. Therefore, trying to understand the interaction of NC dimensions in relation to post-acquisition management is crucial in the search for more effective and efficient management solutions.

Table 3.6 identifies the rankings of the four countries identified in four different regional clusters. These four clusters are evaluated in more detail next because of they are involved in chosen sample in this research.



Table 3.6: Country indices and rankings based on Hofstede’s dimensions

Cluster	Country	Power distance	Uncertainty avoidance	Individualism	Masculinity
Latin Europe	France	68	86	71	43
Germanic Europe	Germany	35	65	67	66
Nordic Europe	Sweden	31	29	71	5
Anglo Cultures	US	40	46	91	62
<i>Interpretation of scores</i>		High score = high power distance / uncertainty avoidance / individualism / masculinity			

Source: Hofstede (1991)

The regional clusters of countries were adopted from the most recent culture study known as the GLOBE (Global Leadership and Organisational Behaviour Effectiveness) study (2002). This study conducted a survey among middle managers in 61 nations across the food processing, finance and telecommunications industries.

A summary of the NC characteristics and the workplace manifestations for France, Germany, Sweden and USA is seen in Table 3.7.



Table 3.7: Workplace manifestations of differences in NC

Classification	NC dimensions	
	Author(s)	Universalism vs. Particularism / Truth and reality
Relationship with people	Hall (1960); Schein (1985); Trompenaars (1993); and GLOBE study (2002)	<b>Universalist societies</b> (e.g. <i>USA, Germany, Sweden</i> , Denmark, Finland) <ul style="list-style-type: none"><li>▪ Focus is on following the rules</li><li>▪ Legal contracts are readily drawn</li><li>▪ A trustworthy person is one who honours their word or contract</li><li>▪ There is only one truth or reality</li><li>▪ A deal is a deal</li></ul>
		<b>Particularist societies</b> (e.g. <i>France</i> , Japan, Italy, Mexico) <ul style="list-style-type: none"><li>▪ Focus on relationships rather than rules</li><li>▪ Legal contracts are readily modified</li><li>▪ A trustworthy person is one who honours changing mutualities</li><li>▪ There are several perspectives on reality</li><li>▪ Relationships evolve</li></ul>
		<b>Femininity vs. Masculinity</b>
	Hofstede (1980); GLOBE study (2002); and Denny (2003)	<b>Feminine / diffuse / emotional societies</b> (e.g. <i>Sweden</i> , Denmark, Thailand, Finland) <ul style="list-style-type: none"><li>▪ Gender roles are minimised</li><li>▪ Organisations do not interfere with people's private lives</li><li>▪ More women in more qualified jobs</li><li>▪ Soft, yielding, intuitive skills are rewarded</li><li>▪ Undersell yourself</li><li>▪ Social rewards are valued</li><li>▪ Assertiveness ridiculed</li><li>▪ Stress on life quality</li><li>▪ Consideration for others</li></ul>
		<b>Masculine / specific / neutral societies</b> (e.g. <i>Germany, USA</i> , Japan, Italy, Mexico, Australia) <ul style="list-style-type: none"><li>▪ Gender roles are clearly differentiated</li><li>▪ Organisations may interfere to protect their interests</li><li>▪ Fewer women in more qualified jobs</li><li>▪ Aggressiveness, competitiveness, decisiveness are rewarded</li><li>▪ Oversell yourself</li><li>▪ Work is valued as central life interest</li><li>▪ Assertiveness is appreciated</li><li>▪ Stress on careers</li></ul>



<b>Power Distance / Achievement vs. ascription / Doing vs. being</b>	
<p>Hall (1960); Kluckhohn &amp; Strodtbeck (1961); Adler (1980); Hofstede (1980); Schein (1985); Trompenaars (1993); GLOBE study (2002); and Denny (2003)</p>	<p><b>Small distance / achievement / doing societies</b> (e.g. <i>Sweden, USA, Germany</i>, Denmark, Australia)</p> <ul style="list-style-type: none"> <li>▪ Less centralisation</li> <li>▪ Flatter organisation pyramids</li> <li>▪ Structure in which manual and clerical work are equal jobs</li> <li>▪ Subordinates expect to be consulted</li> <li>▪ Ideal boss is resourceful democrat</li> <li>▪ Participative leadership styles and management styles (tradition of mass participation)</li> <li>▪ Respect for a manager is based on knowledge and skills</li> <li>▪ MBO and pay-for-performance are affective tools</li> <li>▪ Decisions are challenged on technical and functional grounds</li> </ul>
	<p><b>Large distance / ascribed / being societies</b> (e.g. <i>France</i>, Philippines, India, Brazil)</p> <ul style="list-style-type: none"> <li>▪ Greater centralisation</li> <li>▪ Tall organisation pyramids</li> <li>▪ More supervisory personnel</li> <li>▪ Structure in which white-collar jobs are more valued than blue-collar jobs</li> <li>▪ Subordinates expect to be told what to do</li> <li>▪ Ideal boss is benevolent autocrat (good father)</li> <li>▪ Autocratic leadership styles and management styles</li> <li>▪ Respect of a manager based on seniority</li> <li>▪ Direct rewards are more affective tools</li> <li>▪ Decisions are only challenged by people with higher authority</li> </ul>
<b>Affective vs. neutral</b>	
<p>Trompenaars (1993)</p>	<p><b>Neutral societies</b> (e.g. <i>Sweden, Germany</i>, Japan)</p> <ul style="list-style-type: none"> <li>▪ Feelings are carefully controlled and subdued</li> <li>▪ Cool and self-possessive conduct is admired</li> <li>▪ Physical contact, gesturing, or strong facial expressions often taboo</li> </ul>
	<p><b>Affective societies</b> (e.g. <i>France, USA</i>)</p> <ul style="list-style-type: none"> <li>▪ Show feelings plainly</li> <li>▪ Heated, vital, animated expressions admired</li> <li>▪ Touching, gesturing and strong facial expressions common</li> </ul>



Collectivism vs. Individualism	
<p>Hofstede (1980); Trompenaars (1993); and GLOBE study (2002)</p>	<p><b>Collectivist societies</b> (e.g. <i>France</i>, Venezuela, Columbia, Taiwan, Mexico)</p> <ul style="list-style-type: none"> <li>▪ Organisation as ‘family’</li> <li>▪ Decision-making process is slow. Value standards differ for in-group and out-group: particularism</li> <li>▪ Organisation defends employee interests</li> <li>▪ Practices are based on loyalty, sense of duty and group participation</li> <li>▪ Relationships prevail over task</li> <li>▪ Moral model of employer-employee relationship</li> </ul>
<p>Kluckhohn &amp; Strodtbeck (1961); Adler (1983); and Trompenaars (1993)</p>	<p><b>Individualist societies</b> (e.g. <i>USA</i>, <i>Germany</i>, Australia, Britain, Canada, Netherlands)</p> <ul style="list-style-type: none"> <li>▪ Organisations are more impersonal</li> <li>▪ Decision-making process is quick</li> <li>▪ Same value standards apply to all: universalism</li> <li>▪ Organisations defend their own self-interest</li> <li>▪ Practices encourage individual initiative</li> <li>▪ Task prevails over relationships</li> <li>▪ Calculative model of employer-employee relationship</li> </ul>
Specific vs. diffuse	
<p>Kluckhohn &amp; Strodtbeck (1961); Adler (1983); and Trompenaars (1993)</p>	<p><b>Specificity</b> (e.g. <i>USA</i>, <i>Sweden</i>, Netherlands)</p> <ul style="list-style-type: none"> <li>▪ Direct, to the point, purposeful in relating</li> <li>▪ Structure the meeting with time, intervals and agenda</li> <li>▪ Do not use titles or acknowledge skills that are irrelevant to the issue being discussed</li> <li>▪ Management is the realization of objectives &amp; standards with rewards attached</li> </ul> <p><b>Diffuseness</b> (e.g. <i>France</i>, <i>Germany</i>, Italy, Japan, Mexico)</p> <ul style="list-style-type: none"> <li>▪ Indirect, circuitous, seemingly ‘aimless’ forms of relating</li> <li>▪ Let the meeting flow, occasionally nudging its process</li> <li>▪ Respect a person’s title, age, background, connections whatever the issue being discussed</li> <li>▪ Management is a continuously improving process by which quality improves</li> </ul>



Relationship with time		Time orientation	
	Hall (1960); Schein (1985); Hofstede (1980); Trompenaars (1993); and GLOBE study (2002)	<b>Sequential, short-term oriented/ monochronic</b> (e.g. <i>Germany, USA</i> ) <ul style="list-style-type: none"> <li>▪ Only do one activity at a time</li> <li>▪ Time is sizeable and measurable</li> <li>▪ Employees feel rewarded and fulfilled by achieving planned goals as in MBO</li> <li>▪ The corporate ideal is the straight line and the most direct, efficient and rapid rout to meeting objectives</li> </ul>	<b>Synchronic, long-term oriented / polychronic</b> (e.g. <i>France, Sweden</i> ) <ul style="list-style-type: none"> <li>▪ Do more than one activity at a time</li> <li>▪ Appointments are approximate and subject to 'giving time' to significant others</li> <li>▪ Employees feel rewarded and fulfilled by achieving improved relationships with supervisors/customers</li> <li>▪ The corporate ideal is the interacting circle in which experience, present opportunities and future possibilities cross-fertilise</li> </ul>
Relationship with nature		Uncertainty Avoidance / Internal vs. external control	
	Hofstede (1980); Trompenaars (1993); Steenkamp (2001); and GLOBE study (2002)	<b>Weak</b> (e.g. <i>Sweden, Britain, USA, India</i> ) <ul style="list-style-type: none"> <li>▪ Less formalisation and standardisation</li> <li>▪ Less structuring of activities</li> <li>▪ Fewer written rules: dislike of rules</li> <li>▪ More generalists</li> <li>▪ Greater variability</li> <li>▪ Greater willingness to take risks</li> <li>▪ Less ritualistic behaviour</li> <li>▪ Tolerance of deviant persons and ideas</li> </ul>	<b>Strong</b> (e.g. <i>France, Germany, Greece, Portugal, Japan, Peru</i> ) <ul style="list-style-type: none"> <li>▪ More formalisation and standardisation</li> <li>▪ More structuring of activities</li> <li>▪ More written rules: emotional need for rules</li> <li>▪ More specialists</li> <li>▪ Less willingness to take risks</li> <li>▪ More realistic ritualistic behaviour</li> <li>▪ Intolerance of deviant persons and ideas</li> </ul>

Source: Adapted from works of Hall (1960); Kluckhohn and Strodtbeck (1961); Adler (1983); Hofstede (1980); Schein (1985); Furnham and Gunter (1993); Trompenaars, (1993); and Steenkamp (2001).



## France

France scores highly on Hofstede's power distance index indicating little concern with participative management, but a great concern with who has the power (Hofstede, 1980). France, today, is still an industry of family empires with many paternalistic traditions. There is a remnant of a feudalistic heritage that is deeply rooted within the French spirit, which could account for the very conservative and autocratic nature of their business methodology (Jesuino, 2002; and Denny, 2003). For example, the French hierarchical organisations and managerial focus on authority (Laurent 1991), which are a major part of the French view of organisations, correspond to French cultural values and cultural map. The general French strategic leadership type is likely to lead to a centralised structure, formal culture and control-oriented strategies (Calori et al, 1994; Jesuino, 2002; and Denny, 2003). The subordinates are expected to be told what to do (Denny, 2003). Since the French view organisations as a formal pyramid of differentiated levels of power, success stems from their ability to "work the system" by managing the power relationships effectively (Laurent 1983).

Furthermore, in high power distance countries, Haire et al. (1966) found that people from Latin European countries such as the French, are less willing to show trust, participate in decisions and share information than people from Anglo countries (Americans and British). The high power distance in Latin cluster may have something to do with the strong presence of the Catholic Church in these countries (Jesuino, 2002; and Denny 2003).

France scores highly too on the uncertainty avoidance index indicating a high need for formality and bureaucratic tradition (Denny, 2003). For example, Schneider (1985) comments that the emphasis on formal work rules by the French inhibits entrepreneurial behaviour. Perret (1982) found the French managers to be preoccupied with absolute accuracy for all control indicators and less concerned about what the data implied.



Sirota and Greenwood (1971) found that US and other Anglo countries value individual achievements more than the French who find it less important to be challenged while at work. For example, the French have been criticised for being more concerned with taking vacations than making deals (Scherrer, 1987).

The French are less inclined to live their lives by sacrosanct schedules that can be classified as a more feminine culture. For example, Inzerelli and Laurent (1983) found Latin European managers including the French to be more focused on personal relationships than on tasks. Sirota and Greenwood (1971) also found that the French placed far greater importance on issues concerning job security than do the Americans.

### **Germany**

This country is characterised by a strong tendency for standardisation and rules, hierarchy, assertiveness and gender inequality (Szabo et al., 2002). This corresponds with Hofstede's study (1980). Table 3.8 depicts the typical cultural attributes of Germany.

The most characteristic aspect that will strike an outsider is the way they manage uncertainty (Hofstede, 1980; and Hickson and Pugh, 1995). This therefore means that in the post-acquisition process, they would prefer to emphasise their own style of management and prefer more control over the decision-making. This means that they might be less open to changes in the acquisition process.

The characteristic of the German culture is the management of authority. They prefer structured and organisational unity. The managerial view of business is highly structured where activities are product-led, with an emphasis on competition through product appropriateness and quality, rather than market-led with an emphasis on competition through price (Hickson and Pugh, 1995; and Szabo et al., 2002). There is also the aspect of high masculinity which suggests an emphasis on performance measurement (Hofstede, 1980; and Trompenaars, 1993; and Szabo et al., 2002).



Table 3.8: German culture and management

Typical organisational structure	Germany	Authors
Financial system	Long-termism	Ebster-Grosz and Pugh (1991); and Szabo et al. (2002)
Marketing function	Sales and financial analysis	Ebster-Grosz and Pugh (1991)
Vocational qualifications of staff	Comprehensive system. Very strong emphasis on education and training. More technically trained compared to most countries	Ebster-Grosz and Pughm (1991); Hickson and Pugh (1995); and Szabo et al. (2002)
Top management qualification	Highly technical, less work experience as compared to an Anglo-Saxon country	Ebster-Grosz and Pugh (1991); and Apfelthaler et al. (2002)
Work attitudes of staff	Adherence to procedure	Ebster-Grosz and Pugh (1991); and Szabo et al. (2002)
Decision-making style	Risks calculated and decisions are slower	Hofstede (1980); and Ebster-Grosz and Pugh (1991)
Managements value	Efficient operations	Ebster-Grosz and Pugh (1991)
Management emphasis on	Reliability	Ebster-Grosz and Pugh (1991)
Attitude to time	Start work on time, work steadily and finish precisely at 5 p.m.	Hofstede (1980); Hall and Hall (1990); and Szabo et al. (2002)
Orderliness and hard working	Relative high task orientation. Emphases on stability, planning and achievement	Hickson and Pugh (1995); and Szabo et al. (2002)
Attitude to goals	Established goals are not questioned but the system allows for considerable degree of self-programming by subordinates within the given parameters	Hickson and Pugh (1995)

Source: Author



Another distinct characteristic of this culture is that work relationships are strongly influenced by the medieval guild system wherein the engineer and the Meister fill hero roles (Hofstede, 1998). Therefore, management control is through expertise as formal credentials and expertise are highly valued in this country (French, 1995; Hoecklin, 1997; and Apfelthaler et al, 2002).

## **Sweden**

In Sweden, a very distinctive characteristic of the culture is that there is a very low power distance in the country (Hofstede, 1980; and GLOBE 2002). There is an absence of a many-tiered social structure that can lead to a feeling that those in power are quite close. This value is manifested in the organisation in the style of dress and demeanour of managers and the belief in the participation of subordinates (Hickson and Pugh, 1995). The Scandinavian organisations that share a trademark of consensus-oriented management styles (Myers et al. 1995; and Denny, 2003) and leads to a team-oriented culture and structure, follows from national cultures with collectivistic and low power distance values (Hofstede 1980 and 1991; and Denny, 2003).

Sweden scored the lowest in terms of the individualism index displaying and embracement of interdependence, family security, social hierarchies, co-operation, and low levels of competition (GLOBE, 2002). Smiley (1999) noted that Nordics tend to be modest, punctual, honest, high-minded, and rich people generally dress, eat and travel in the same style as the prosperous middle class, all of which reflect underplaying of assertive, familial, and masculine authority and emphasis on certainty, social unity and cooperation.

The Swedes score low on the uncertainty avoidance index, therefore indicating the higher possibility to take risks and are relatively tolerant of changes and behaviour of other cultures. However, change must be a rational and pragmatic (Denny, 2003). This implies that they are likely to adapt to changes more easily than the other cultures discussed here. There will be a tendency for this culture to adapt a long-



termism view and may feel frustrated about short-term reporting structures (GLOBE, 2002).

The nation also values that the quality of working life should be as attractive as that of non-working life. This has been labelled as 'feminine' by Hofstede (1980) which reflects its position as the leading country in the world for social welfare provisions which are regarded as rights for all (Hickson and Pugh, 1995; and GLOBE, 2002). Hence, it is expected that in the post-acquisition process, the employees expect a continuous effort to maintain the excellent work conditions and relationships.

### **United States**

The most studied national culture is the economically most successful - that of the United States of America. As a whole this country display characteristics of being assertive, traditionally individualistic, a society that strongly endorse achievement (especially in pursuit of material wealth), and feel that there should be less reliance on formal rules and procedures (Ashkanasy et al., 2002). Ferraro (1990) and Yamashita (1998) listed what they saw as the main traits or attributes of US culture:

- Strong individualism
- Concept of precise time
- Value of work and performance
- Respect for diligence
- 'Future-orientedness'
- Youngness, newness
- Taking things easy
- Humankind controlling the natural world
- Competition
- Relative male-female equality
- Acceptance of immigrants

According to Hofstede (1980), leaders in the United States practice management by objectives. This assumes that a subordinate is independent enough to negotiate meaning fully with a superior (not too high power distance), and that both the superior and the subordinate are willing to takes risks (low uncertainty avoidance) and performance is important to both (high masculinity).



United States has a low score for uncertainty avoidance, displaying a culture with less need to avoid uncertainty, people are willing to take risks and to accept change. In managerial terms, this may result in younger people holding more responsibility than in countries with higher levels of uncertainty avoidance and there is a strong preference for management careers. In such cultures, people may be more willing to bend the rules. For example, Americans are driven by getting things done which can result in risk-taking.

In terms of individualism, the US scores the highest among the Anglo cluster. This shows that, along with parts of Europe, individuals in North America prefer independent relationships to one another, and individual goals take precedence over group goals (Hofstede, 1980; and Ashkanasy et al., 2002). The US cultural values for individualism, focus on present, and diffuse culture which have contributed to a general US strategic leadership which tends to be moderate on control and challenge seeking, while focusing on individual performance, being short-term oriented, and separating employees' work and personal lives. The Americans share a belief that anything is possible (Stewart and Bennett, 1991). This results in a strong work ethic (rooted in the Protestant ethic) that sometimes ends in obsession with work (Hall and Hall, 1989) to the detriment of family issues.

The Americans' score on masculinity is rather high and this supports Kluckhohn and Strodtbeck's (1961) study, which found that the Americans view time as a valuable commodity: "time is money", punctuality is expected, and deadlines are to be met. Americans usually do one thing at a time. At work, this makes them schedule and view their tasks as a series of quasi-linear relationships. This results in a "monochronistic calm" (Hall and Hall, 1989) that gives them the ability to "seek order from the situation" (Hofstede, 1997) that makes them appear pragmatic and flexible.

### **3.3 BASIC CONCEPTIONS OF ORGANISATIONAL CULTURE**

The term 'organisational culture' is a relatively recent phenomena compared to national culture. It first appeared casually in English-language literature in the 1960s



as a synonym of ‘climate’ (Hofstede, 1994). Then in the 1980s, the equivalent ‘corporate culture’ gained popularity by a book from Deal and Kennedy (1982) carrying this title. Since then, extensive literature has been developed on the topic. Therefore, to attempt a substantial discussion of the different perspectives on organisational culture, it is necessary to first introduce, define and illustrate its major elements, and relate them to each other.

### ***3.3.1 Meaning of organisational culture***

There has been a proliferation of authors, particularly since the 1980s, focusing on the concept of organisational culture and claiming that it makes a difference to the effectiveness of organisations (Ouchi, 1981; Pascale and Athos, 1981; Peters and Waterman, 1982; Deal and Kennedy, 1982; Kilmann, 1984; Sathe, 1985; Denison, 1990; Schein, 1991; Drennan, 1992; and Kotter and Heskette, 1992).

A large number of definitions have been proposed for the concept of culture in the corporate setting. The definitions range from more essentialist (Schein, 1992) to more symbolic views (Hatch, 1993; Kreiner and Schultz, 1995), from more theoretical (Ouchi and Wilkins, 1985; Hatch 1993; Harris, 1994) to more practical orientations (Peters and Waterman, 1982; and Deal and Kennedy, 1992) and finally, from less critical (Barley et al., 1988) to more critical views (Wilmott and Knights, 1995).

Many of the more traditionally and practically oriented researchers have shared a ‘realist’ conception of culture. According to this view, “culture” is manifested among members of a group – organisation or nation. Those who share this view argue that it is possible to uncover the core elements of a particular organisational (Schein, 1992) or national culture (Hofstede, 1997) by studying cognitive patterns, attitudes or behaviours of the members of the culture. Most scholars advocating this realist approach subscribe to the view of cultures as multifaceted constellations. Schein’s (1992) model, which separates artefacts, values and underlying basic assumptions is especially popular.



There are various definitions of organisational culture and Table 3.9 illustrates a selection of these encountered in relevant literature in chronological order. These definitions highlight the common characteristics that emerge in many of the definitions proposed for organisational culture. Firstly, organisational culture is a shared phenomenon (Tichy, 1982; Ouchi and Wilkins, 1983; and Pfeffer, 1991). Culture here is a learned product of group experience and is, therefore, only to be found where there is a definable group with a significant history. The group does not necessarily have to be a whole company as companies can have multiple cultures (Kotter and Heskett, 1992) or subcultures (Schein, 1991) that are usually associated with different functional or geographic groupings.

Secondly, the majority of authors, with the exception of Schein (1991), believe that there are two levels of culture, the visible level and the deeper less visible level. Schein's argument is that the term 'culture' should only relate to the deeper less visible level, although he uses the visible evidence to understand and describe different cultures.

The third element relates to the manner in which new members learn the culture. A process of cultural socialisation arises informally from the existing employees and formally through induction training programmes. Harrison and Carroll (1991) explained that if an individual enters an organisation where employees work in an environment of strong group and peer pressure, the individuals would adopt the employees' norms. However, when the group pressures are weak, the individual is likely to accept the norms encouraged by the management.



Table 3.9: Definitions of organisational culture

Definition of OC	
Author (s)	
Jaques (1952)	<i>'The culture of the factory is its customary and traditional way of thinking and doing things, which is shared to a greater or lesser degree by all its members, and which new members must learn, and at least partially accept, in order to be accepted into service in the firm.'</i>
Schneider (1958) p. 358	<i>'Culture refers to: a) the values that lie beneath what the organisation rewards, supports and expects; b) the norms that surround and/or underpin the policies, practices and procedures of organisations; and c) the meaning incumbents share about what the norms and values of the organisation are.'</i>
Pettigrew (1979)	<i>'Culture is a system of such publicly and collectively accepted meanings operating for a given group at a given time. This system of terms, forms, categories, and images interprets a people's own situation to themselves.'</i>
Schein (1984), p. 3	<i>'Organisational culture is the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.'</i>
Van Maanen (1988)	<i>'Culture refers to the knowledge that members of a given group are thought to more or less share, knowledge of the sort that is said to inform, embed, shape and account for the routine and not-so-routine activities of the members of the culture.'</i>
Kotter and Heskett (1992) p. 4	<i>'At the deeper and less visible level, culture refers to the values that are shared by the people in a group that tend to persist over time even when group membership changes,. At the more visible level, culture represents the behaviour patterns or style of an organisation that new employees are automatically encouraged to follow by their fellow employees. Each level of culture has a tendency to influence the other.'</i>
Hofstede (1994) Cultures and Organisations: Intercultural Cooperation and its importance for survival, pp. 180	<i>'Organisational culture can be defined as the collective programming of the mind, which distinguishes the member of one organisation from another.'</i>

Source: Author



Finally, organisational values tend to change slowly over time. Kotter and Heskett (1992) explained that culture evolves as a result of the turnover of the group members, changes in the company's environment and general changes in society. Ouchi and Wilkins(1983) quoted a number of examples of organisations claiming to experience great distress because the culture cannot be changed or because its members would not change fast enough. This is likely to happen more frequently and evidently in mergers and acquisitions where two corporate cultures are forced to join together and work as one company.

The consensus from the academic literature suggests that organisational culture consists of the visible and less visible norms, values and behaviour that are shared by a group of employees, which shape the group's sense of what is acceptable and valid. These are generally slow to change and new group members learn them through both an informal and formal socialisation process – communication process.

However, Schein (1996) argues that whilst the definition of OC may reveal its characteristics and elements, it does not make clear why OC survives and exists in the first place. The answer to these two issues could be derived from the argument that OC exists to serve certain functions in the organisation (Schein, 1985). As Schein stated, OC is the outcome of group learning and arises to solve group's basic problems of: 1) survival and adaptation to the external environment, and 2) internal integration of processes, so that external adaptation is ensured. Table 3.10 shows a list of organisational problems associated with the themes of external and internal adaptation.

The external adaptation issues vary according to the group's and leader's definition of environment as well as the way to adapt in it. The internal integration issues involve the arrangement of the relationships among group participants, so that the group continues to survive. The integration process also involves a shared problem definition and invention of solutions that are appropriate for the organisational and environmental contingencies (Schein, 1992).



Table 3.10: Themes of external adaptation and internal integration

Themes	Problems for survival in the organisation
External adaptation	<ul style="list-style-type: none"><li>▪ Common language and conceptual categories</li><li>▪ Group boundaries and criteria for inclusion and exclusion</li><li>▪ Intimacy, friendship and love are to be handled in the context of managing</li><li>▪ Organisational tasks</li><li>▪ Rewards and punishments</li><li>▪ Ideology</li></ul>
Internal integration	<ul style="list-style-type: none"><li>▪ <i>Mission and strategy</i>: obtaining a shared understanding of core mission, primary task, manifest and latent functions</li><li>▪ <i>Goals</i>: developing consensus on the means to attain the goals as derived from the core mission</li><li>▪ <i>Means</i>: developing consensus on the means to attain the goals such as organisation structure, division of labour, reward system and authority system</li><li>▪ <i>Measurement</i>: developing consensus on the criteria used in the measurement of how well the group/organisation is doing in fulfilling its goals (information/control systems)</li><li>▪ <i>Correction</i>: developing consensus on the remedial strategy implemented, if goals are not met</li></ul>

Source: Adapted from Schein (1992)

3.2.2 Formation of OC

Factors that strongly appear to influence the formation of OC in the company are: 1) leadership, 2) history and ownership, 3) goals and objectives, 4) the primary function of the organisation and the technological means, 5) size, 6) the environment, 7) the people in the organisation (Schein, 1992; Handy, 1993; and Mullins, 1997 and 1999).

▪ Leadership

The founders of OC usually have a major impact on how the group defines and solves the internal integration and external adaptation problems (Schein, 1992; and Smith 1995). They take the initiative in organising the group based on their own perceptions of these problems based on their personality, ideas and characteristics. Subsequently, the founder’s assumptions are reflected on how the group operates in the everyday situation. The impact of leaders on OC is considered to be obvious, at least in the birth and early growth stages of OC (Schein, 1983). Founders and subsequent leaders continue to influence the organisational culture (Thompson and Luthans, 1990; Schein, 1992; and Yukl, 1994).



- *History and ownership*

The age of the company, its ownership and its history affect OC in a number of ways (Handy, 1993). The history of an organisation provides insights regarding the reason for which the organisation was originally formed. The history of an organisation incorporates the values, beliefs, and the vision of the founder and the first senior managers. Ownership may indicate the OC which is formed in the organisation. For example, Harrison (1972) argues that centralised ownership tends to lead towards an OC with high power distance and firm control of the organisational activities. On the contrary, diffused ownership seems to allow the dissemination of authority and is based on alternative sources of powers. Finally, events like M&As often herald changes in the top management of a company and consequently in the OC of the firm.

- *Goals and objectives*

The founders and organisational members determine the goals and values alignment of the firm. Schein (1992) emphasises that goal setting facilitates organisations to meet external adaptation problems. He suggests that organisations should pay attention to objectives in all key areas of their operations. Goals influence OC and OC shapes goals. The combination of objectives and resultant strategies simultaneously influence and are manifested on the OC of the firm (Deshpande et al., 1993). Furthermore, a change in organisational goals may sign or initiate a change in OC (Handy, 1993).

- *Primary function of the firm*

The nature of business and its primary function are reflected in OC formation (Mullins, 1999). The primary function of the business is articulated in the mission statement and value proposition of the organisation and involves the range and quality of the company's products and services (Walters and Lancaster, 1999). The primary function of the organisation determines the technological means to undertake work. Hatch (1997) examines the typologies of three influential organisational theorists on technology adoption (Woodward, 1958; Thompson, 1967; and Perrow, 1974) and implementation, and concludes that the selection of



technological means to serve the functions of an organisation is largely based on the OC of the firm and different ways of organising people, resources and activities in the company.

- *Size of firm*

The size of organisations has often proved to be an important variable that influences OC formation. Usually larger organisations are inclined towards formalised organisational cultures. Increased size is likely to result in separate divisions and possibly split-site operations. This might cause difficulty in communication and co-ordination of organisational activities. A rapid expansion or change in the size of the organisation may result in change of OC (Mullins, 1999).

- *Environment*

The assumption that NC affects and interacts with OC is based on the fact that the formation of OC appears to be largely influenced by environmental factors (Thorne, 2000). The environment includes: the economic environment, the market, the competitive scene, the geographical and societal setting. Major points that highlight the effect of environment in the OC formation are that:

- Different nationalities favour different organisational cultures (Hofstede, 1992; and House et al., 1997)
- Changes in environment may potentially reflect on OC and promote flexibility and adaptability as qualities of a desired OC (Mishra and Denison, 1995)

- *People in the organisation*

It has been argued that different types of OC integrate with different psychological characteristics and styles of people. For instance OC-person fit suggests that certain types of people might be happy and successful in one OC setting but not in another (O'Reilly et al., 1991; and Mullins, 1996). The ideal situation is the match between individual and OC's characteristics which leads to satisfied employees. In general,



individual orientations of the key people in an organisation tend to determine the formation of OC and the dominant OC in the organisational setting (Handy, 1983).

### ***3.2.3 Conceptual frameworks of OC***

This section presents and discusses the two popular frameworks of OC, by Schein (1992) and Hofstede (1990), and elaborates their key concepts. Although there are arguments that the frameworks oversimplify the OC phenomenon, the frameworks maintain an important role in guiding, stimulating and generating theory and empirical research (Hatch, 1993).

#### ***Schein's conceptualisation***

Schein (1992) analyses OC at three different levels, namely assumptions, values and artefacts, where level refers to the degree to which the cultural phenomenon is visible to the observer (Figure 3.6). His model has been influential in the study of OC and has been described as 'one of the only conceptual models ever offered' (Hatch, 1993, p.658).

At the surface are artefacts which are the visible elements of organisation such as architecture of its physical environment, its language, its technology and products, its style as embodied in clothing, manners of address, emotional displays, myths and stories told about the organisation. Schein characterises this level as 'easy to observe but very difficult to decipher' (1992, p.17).

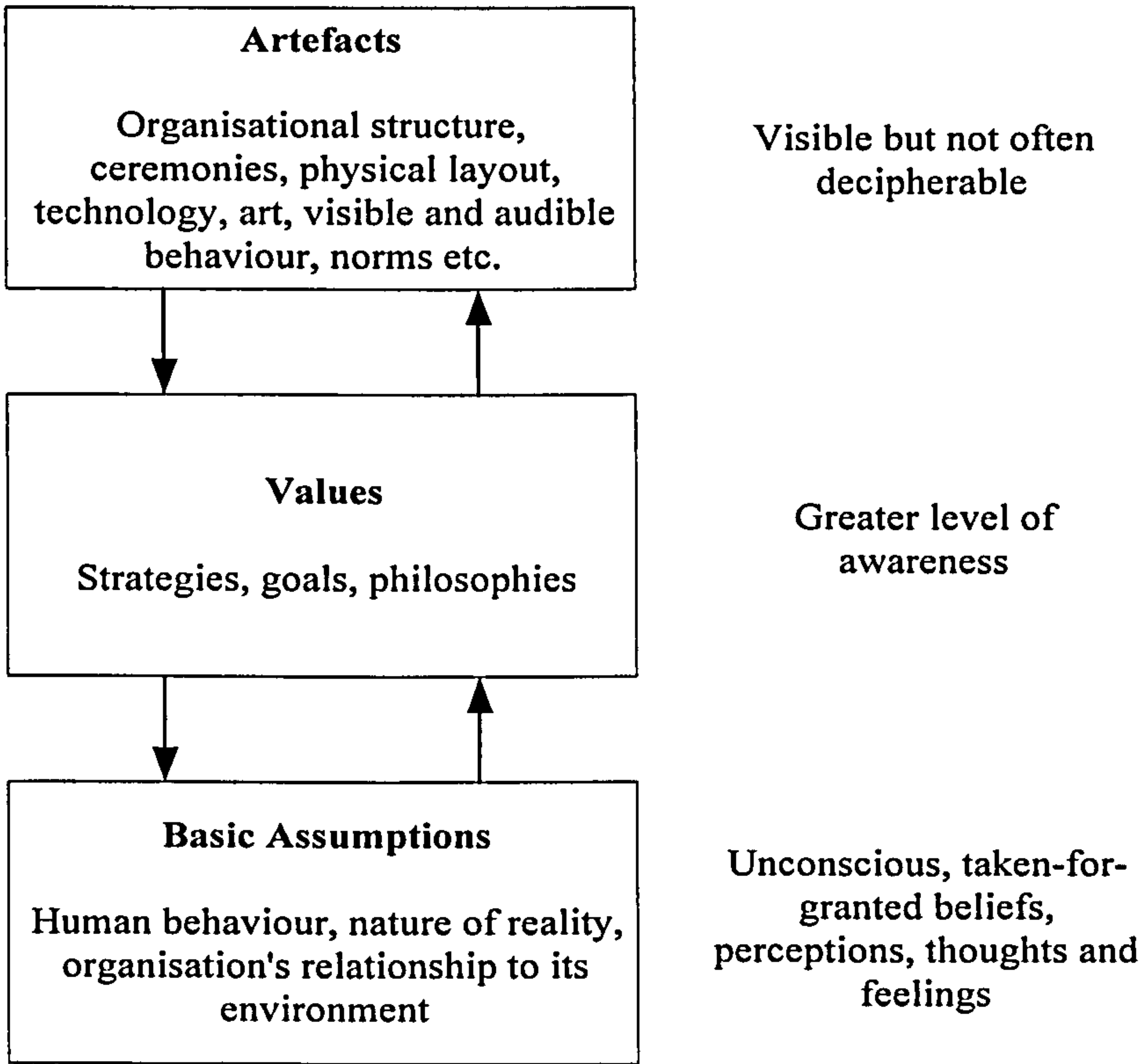
The level below artefacts consists of espoused values and beliefs of the organisation. While values are not visible, individuals can be made aware of them. This level requires interviewing key members and informants in the organisation as well as content-analysing verbal material such as organisation document (Schein, 1992). In order to get to a level of deeper understanding, decipher the pattern, and to predict future behaviour correctly, understanding of assumptions is needed.



Assumptions, the nucleus of the framework, are unconscious, taken for granted elements of OC. Schein (1992) refers to these elements as very difficult to change. According to Schein, all three levels must be studied to understand fully an organisation’s culture. In order to understand and interpret the artefacts correctly, one needs to decipher the pattern of basic assumptions. In other words, the essence of organisational culture is its basic assumptions.

In relation to M&As, Schein (1985) argues that the difficulties faced in integrating OC are due to different communication systems, leadership styles, interpersonal relations, motivation, and ideologies as seen in Table 3.11.

Figure 3.6: Schein’s levels of culture



Source: Adapted from Schein (1992)



Table 3.11: Problems in integrating OC

Problems Identified	Description of Problems
Common language and conceptual categories	If members cannot communicate with and understand each other, a group is impossible by definition
Group boundaries and criteria for inclusion and exclusion	One of the most important areas in the shared culture is the shared consensus on who is in and who is out and by what criteria one determines membership
Power and status	Every organisation must work out its pecking order, its criteria and rules for how one gets, maintains and loses power; consensus in this area is crucial to help members manage feelings of aggression
Intimacy, friendship and love	Every organisation must work out its rules of the game for peer relationships, for relationships between the sexes, and for the manner in which openness and intimacy are to be handled in the context of managing the organisation's tasks
Rewards and punishments	Every group must know what its heroic and sinful behaviours are; what gets rewarded with property, status, and power; and what gets punished in the form of withdrawal of the rewards and, ultimately, excommunication
Ideology and "religion"	Every organisation, like every society, faces unexplainable and inexplicable events, which must be given meaning so that members can respond to them and avoid the anxiety of dealing with the unexplainable and uncontrollable

Source: Derived from Schein (1985)

**Hofstede’s conceptualisation**

Hofstede (1994, p.179) suggests that there is no standard definition of OC and argues that scholars tend to consider OC as:

- Holistic, referring to a whole which is more than the sum or its parts;
- Historically determined, reflecting the history of the organisation;
- Related to the things that anthropologists study such as rituals and symbols;
- Socially constructed, created and preserved by the group of people who together form the organisation;
- Soft; and
- Difficult to change.

In contrast to other writings in this area that acknowledge assumptions and values at the most important elements of OC, Hofstede et al. (1990) put forward this view that daily practices are the core aspect of OC. This is justified by the argument that managers and leaders create OC, which subsequently influences the behaviours of



members through practices. In other words, founders' and leaders' values become shared practices for the employee. The three manifestations of OC are: symbols, heroes, and rituals, which are the practices of the organisation;

- *Symbols* in an organisational context are attached meanings to certain components and activities during organisational life. The symbols that emerge from this process constitute the organisation's vocabulary, the design of the work setting, the organisational jargon and myths;
- *Heroes* are frequently entrepreneurs portrayed as heroes (Pettigrew, 1979; and Deal and Kennedy, 1982); and
- *Rituals* are sometimes viewed as repetitive activities that lack a specific meaning for those who are not participants in the organisation (Trice and Harrison, 1992).

Based on these manifestations, Hofstede's research on OC builds upon a sample of two countries, namely the Netherlands and Denmark. This study eliminated the national culture effect during the data collection stage as results of previous study (1980) were taken into consideration.

Twenty units from ten organisations participated in the OC study conducted by Hofstede et al. (1990). This research was developed in two phases. The first phase consisted of 180 interviews with key informants covering several layers of hierarchy. This phase provided a qualitative feel for the whole of the unit's culture and to collect issues to be used in the questionnaire survey phase. The second phase of the research was a questionnaire survey which included the manifestations of culture termed 'practices': symbols, heroes, and rituals. The implications are seen in Table 3.12.



Table 3.12: Implications of Hofstede’s dimensions on organisations

	High uncertainty avoidance	High power distance	High collectivism	High masculinity
Organisation structure		More levels of hierarchy		
Decision-making		Centralised	Group decision-making Consensus and cooperation	
Job functions	Specialization is evident			Task accomplishments
Control	Defined jobs and functions More formalisation in terms of written rules and procedures	Higher proportion of supervisory personnel		
Motivational factors	Stability and security	Status and power	Sense of belonging and rewards are based on being part of the group (loyalty and tenure)	Acquisition of money and things rather than quality of life
Leadership	Role would be planning, organising, coordinating and controlling	Are obeyed as authorities	Role is to facilitate team effort and integration to foster supportive atmosphere	Role is ensure bottom-line profits to satisfy shareholders and set demanding targets
Countries understudy	France, Germany	France	Sweden	Germany

Source: Adapted from Hofstede (1994)



### ***3.2.4 Different perspectives to understanding organisational culture***

There is an ongoing debate about organisational culture. This takes place between two camps. In one camp, there are the managerial writers and consultants who believe that there is a relationship between a strong culture and organisational performance. For example, Furnham and Gunter (1993, p.232) suggest that *'A well-developed and business-specific culture in which management and staff are thoroughly socialized...can underpin stronger organisational commitment, higher morale, more efficient performance, and generally higher productivity'*. The other camp consists mainly of academic social scientists, who believe that organisation culture is a term that is 'overused, over-inclusive but under-defined.'

There are many debates taking place about organisation culture at many different levels. However, the researcher has chosen to focus on and contrast the managerial perspective within the social science perspective because it enables the reader to assess the discussions of culture in both American and British management-oriented textbooks and management self-improvement books and compare these to the 'critical' contributions of mainly European academics.

The managerial perspectives are based on the writings of managerially oriented authors such as Ouchi (1981); Deal and Kennedy (1982); Pascale and Athos (1982); Peters and Waterman (1982); and Schein (1985). The social science perspective is taken from academics that understand organisational behaviour issues and seek to explain differences between organisations. The managerial and social science debate about organisation culture can be classified under five headings as seen in Table 3.13.



Table 3.13: Managerial vs. social science debate on OC

Managerial perspectives	versus	Social science perspectives
Culture <i>has</i>	vs.	Culture <i>is</i>
Integration culture	vs.	Differentiation culture
Consensual culture	vs.	Fragmentation culture
Culture managed	vs.	Culture tolerated
Symbolic leadership	vs.	Management control

Source: Harris and Moran (1999)

▪ *Culture ‘has’ versus culture ‘is’*

The ‘has-is’ debate is the heart of the controversy and the debate on organisation culture. The ‘has’ view maintains that every organisation possesses a culture, just as it has a strategy, structure, technology and employees. It sees organisations as culture-producing phenomena with that culture being an attribute of the organisation, manifested in its values and attitudes. From this perspective, culture is acquired by employees and is capable of being manipulated by senior management for its own ends (Smircich, 1983).

The ‘is’ view holds that ‘organisations are cultures’, not possessing any objective, independent existence which imposes itself on employees. That culture is a product of the daily, routine interactions between organisation members, who consistently produce and reproduce it.

▪ *Integration culture versus differentiation culture*

The social science approach to organisation culture tends to view it as differentiated or pluralistic. It emphasises on sub-cultural consensus rather than organisation-wide consensus of OC. This means that organisational subcultures may co-exist in harmony, conflict or indifference to each other. It focuses on the variety of interests and opinions between different groups, and upon power in organisations.

The role of the founder is not special in the formation and communication of OC (Daymon, 2000). The founder is only one of many sources for shared understandings and values that constitute the content of these various cultures. In



fact, studies of differentiation perspective draw attention to organisational members rather than leaders as shapers of OC because it is their responses to new situations that serve as major means of establishing OC (Van Maanen and Barley, 1984; Martin et al., 1985; and Bloor and Dawson, 1994).

For those that adopt the social science view, culture is deeper than its symbolic manifestations. Stories, rituals, material symbols, and language within the organisation may be a means of transmitting culture but are not the culture itself. Handy (1976) argued that because different departments within the same organisation operated in different environments, they, therefore, developed, or needed to develop, their own unique sub-cultures.

The managerial approach to culture adopts the integration or unitary perspective. It promotes the idea of a consistent monolithic, dominant and strong OC (Deal and Kennedy, 1982; and Peters and Waterman, 1982). 'Strong' culture is defined by three characteristics: first, that there exists a clear set of values, norms and beliefs; second, that the vast majority of members share them; and third, that their behaviour is guided by these. Furnham and Gunter (1993) listed four such typologies, all produced by different management consultants or managerially oriented academics (Table 3.13). The central role of leaders and managers is recognised in planning, shaping and controlling (Sathe, 1983 ; and Schein, 1985).

The managerialist view does not discount the possibility of sub-cultures (due to differences of function, hierarchical level, gender, and socio-economics and educational background) but considers these to be either unimportant or else capable of being managed. Leadership is seen as having the task of bringing sub-cultures into line with organisational (managerial) interests.

#### ▪ *Consensual culture versus fragmentation culture*

It is unsurprising given its unitary view, that the managerial view of culture emphasises consensus. The possibility of conflict is acknowledged but seen as due to failures in communication and manageable through change interventions. This



approach assumes that senior management articulation of its organisation’s culture is identical to the actual culture (assuming that only one culture exists). It is problematic as it encourages managers to act as if their preferred culture (with its attributes) already existed, leading them to believe that acting out their culture myth could create their desired organisational reality.

The social science view tends to view organisations as a collection of frequently opposed groupings (e.g. management v. labour; staff v. line; production department v. marketing department), which are rarely reconciled. This perspective assumes the inevitability of conflict and focuses on the variety of interests and opinions between different groups and upon power in organisations. It is grounded on the idea that *‘ambiguity is an inevitable and pervasive aspect of contemporary life’* (Frost et al., 1991, p.8). In other words, it permits themes to emerge and voices to be heard that are overlooked from the other perspectives (Martin and Meyerson, 1988; and Van Maanen, 1988).

Table 3.14 contrasts the characteristics of three perspectives in terms of 1) how each perspective is orientated to consensus; 2) how cultural elements relate between perspectives; 3) how ambiguity is dealt with; and finally 4) how the role of the OC creator is perceived from each perspective.

Table 3.14: Martin’s contrast of the three perspectives on OC

Features	Integration	Differentiation	Fragmentation
Orientation to consensus	Organisation-wide consensus	Sub-cultural consensus	No consensus – multiplicity of views
Relations between different cultural elements	Consistent	Inconsistent	Complex
Orientation to ambiguity	Exclude it	Channel it outside sub-culture	Focus upon it
OC creation role	Primarily leaders/founders	Primarily groups	Primarily individuals

Source: Adapted from Joanne Martin (1992) p.13

Martin (1992) concludes that the three perspectives need to be used together in research in order to offer a comprehensive account of organisational phenomena.



She proposes the use of the perspectives sequentially, contending that this exposes the simultaneous existence in organisations of aspects of cohesion and difference, control and independence, conflict and ambiguity. What is ignored from one perspective is highlighted in another and thus the three perspectives simultaneously offer greater insights into the OC construct. Few authors are critical of Martin's ideas (Daymon, 2000), still the limitations are worth noting.

A limitation of Martin's framework is that, in deriving its categories from empirical studies, it leaves no room for discussion of studies that straddle perspectives or for data, which cannot be classified within its approach. Martin (1992) is concerned about this aspect but it appears difficult to know how to resolve the problem, especially in common scientific practice (Alvesson, 1993).

▪ *Culture managed versus culture tolerated*

There has been a long-standing debate concerning the management of OC. Much of this debate stems from the question on whether OC can shape a 'pre-stated ideal' (Brown, 1998).

The managerial perspective assumes that culture is capable of being created and modified by organisational founders and corporate leaders. This sparked three debates. First, between 'weak' and 'strong' cultures considering how companies can change the former into the latter. Second, between 'efficient' and 'inefficient' cultures, which assess the ability of an OC to innovate and adjust rapidly and appropriately to changes in the strategic direction of the firm. Third, leaders' vision can make a distinctive contribution to cultures and they have a critical role to play in culture management (Bass, 1985; Schein, 1985; and Bass and Avolio, 1990).

On the other hand, the 'is' writers on social science research treat OC as a mental state and a context, rather than a variable. They assume that every organisation develops some sort of culture through the interactions of its members (Martin et al., 1985). They considered it inappropriate to assign OC as 'weak' or 'strong',



‘efficient’ or ‘inefficient’, as, like individuals, personalities are not better or worse, just different.

▪ *Symbolic leadership versus management control*

Symbolic leadership is a way of encouraging employees that their work is worthwhile. It treats managers as heroes symbolizing the organisation both internally to their employees and externally to their customers (Smircich and Morgan (1982).

The social perspective argues that symbolic leadership represents an attempt to internalise management control. Table 3.15 distinguishes the different types of management control.

Table 3.15: Contrasting forms of organisational control

<p><b>Bureaucratic control (<i>Taylor</i>)</b>  Manipulation of rewards ----- loyalty ----- increased productivity</p>
<p><b>Humanistic control (<i>Mayo, 1933; 1945</i>)</b>  ‘satisfying’ task or work group ----- loyalty ----- increased productivity</p>
<p><b>Culture (symbolic) control (<i>Deal and Kennedy; Schein</i>)</b>  Manipulation ----- love firm and its goals ----- increased productivity  Including myth and ritual</p>

Source: Adapted from Ray (1986)

### 3.4 CONCLUSIONS

To sum up, Chapter 3 has provided a literature review on the concepts of NC and OC, which provides the context for this study. The existing literature emphasised the importance of NC and OC for successful M&As process (Morosini, 1994; Child et. al, 2001).

Ultimately, in this study the researcher implies that NC and OC are dynamic constructs in post-acquisition management. This chapter set the tone of the researcher’s view on the importance of studying culture in the post-acquisition process and provides the backbone of the development of the multi-dimensional cultural construct in Chapter 4.



This chapter was divided into three parts. In the first part, the researcher touched briefly on the evolution of popularity in NC and OC in M&As research. The second part of the chapter presented the NC definitions and frameworks encountered in the extant literature, while the third part discussed the OC definitions and frameworks.

In the next chapter, the author posits the research objectives and questions to address the weaknesses identified in the literature covered in Chapters 2 and 3. These are then formulated into the overall theoretical framework for managing the post-acquisition process adopted in this thesis.



**PART 3:**

**CONCEPTUAL DEVELOPMENT**

**AND**

**METHODOLOGY**



## CHAPTER 4: CONCEPTUAL DEVELOPMENT

### *Chapter Objectives:*

- To make a clear statement of the aims and objectives of this thesis
- To develop the specific research questions based on the more broadly defined aims and objectives of this study
- To discuss the conceptual approach undertaken, and contextualised within three of the four schools of the thought discussed in the literature chapters. These approaches are:
  - Strategic management school of thought
  - Organisational behaviour school of thought
  - Process view school of thought
- To explain the research constructs and dimensions of the frameworks:
  - Negotiation conflict theory
  - Cultural dimensions
  - Performance measurement tools



## 4.0 INTRODUCTION

The last two chapters reviewed the current literature in M&As and culture. The purpose of this chapter is to synthesise the issues discussed in Chapters 2 and 3, to clearly state the aims, objectives of the research, and posit the conceptual framework and constructs adopted for the needs of this study. The conceptual framework of this research is fundamentally important to the research design, and to the usefulness and applicability of the research results.

This chapter therefore draws mainly from three of the four schools of thought discussed in the preceding literature chapters: *strategic management, process and the organisational behaviour school perspectives*. The important strand of thinking in the latter two schools is the concern with the post-acquisition integration process and success. However, these two schools of thought differ in their objective function. The process school views value creation as the objective of the acquisition and this is measured in terms of transfers of capabilities and resources sharing (Child et al., 2001). The organisational behaviour school is more concerned with generating satisfaction and shared identity among the employees from both companies. This study posits that though the two schools are distinct, they are not independent of each other. For example, management is able to create satisfied employees throughout the post-acquisition integration process; it will be easier for management to transfer capabilities and share resources.

Therefore, the underlying tenet for the conceptualisation of this research is the single idea *that managing the cross-border post-acquisition process successfully can be tracked through understanding and managing the interactions of national and organisational cultures over time*.

This chapter has been divided into three sections. The first section explicitly details the research aims, the research objectives and the corresponding research questions. This is followed by the presentation of the conceptual framework of the post-acquisition process adopted in this thesis. It looks at the assumptions made for the framework, the management process, cultural influences, and the effect on M&A



performance. Finally, the third section elaborates on the multi-dimensional cultural construct adopted for the needs of this study. It presents the approach of OC and NC in this study.

## **4.1 DEVELOPMENT OF A CONCEPTUAL APPROACH**

### ***4.1.1 Research aims, objectives and research questions***

The author strongly feels that this is an area much in need of in-depth qualitative research and offers exciting possibilities for the development of an appropriate conceptual approach. Research objectives answer the question, “what is the purpose of this research project?” These are seen in Table 4.1.



Table 4.1: Research aims, objectives and questions

RESEARCH AIM						
To explore the interactions of national and organisational cultures during the cross-border post-acquisition process with the intention of identifying the relevant factors that influence post-acquisition behaviour and performance.						
RESEARCH OBJECTIVES (RO)	RESEARCH QUESTIONS (RQ)	METHODOLOGY UNDERTOOK TO ACHIEVE RO & RQ				LOCATED IN CHAPTER(S)
		Secondary research	Primary research			
		Literature review	In-depth interviews	Field survey	Personal observations	
1. To produce a theoretical framework of managing the cross-border post-acquisition process that composites a multi-dimensional cultural framework	i. How does culture influence the cross-border post-acquisition process?  ii. Which cultural dimensions influence the post-acquisition process?	√				Chapters 2, 3 and 4
2. To investigate the above frameworks through primary research	i. Based on findings primary research, do the frameworks apply?  ii. Do NC and OC interact during the post-acquisition process?  iii. How do NC and OC interact during the post-acquisition process?		√	√	√	Chapters 5, 6, 7, 8, 9, 10



2a. To critically analyse the effects of those cultural dimensions on the post-acquisition behaviour of employees in the acquired firm	<p>i. How do differing NC and OC interaction influence the post-acquisition behaviour?</p> <p>ii. How does the acquirer manage these interactions and resulting behaviour?</p> <p>iii. Do NC or OC in the acquired firm change during the post-acquisition process?</p>		✓	✓	✓	✓	
2b. To identify the responses of employees in the acquired firm during post-acquisition changes	<p>i. Why do the acquired employees behave the way they do in the post-acquisition process?</p> <p>ii. Which factors affect their behaviour?</p> <p>iii. Does their behaviour change over the course of the post-acquisition process? Why?</p>		✓	✓	✓	✓	
2c. To identify whether cultural differences are relevant to cross-border acquisition performance	<p>i. Are culture differences related to the cross border performance?</p> <p>ii. How are they related?</p>		✓	✓	✓	✓	



<p>3. To develop lessons and implications for the literature and for managerial practitioners</p>	<p>i. What are the factors the acquirer must consider, understand, and plan for prior to implementation of the M&amp;A?</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Chapters 11 and 12</p>
	<p>ii. How should they manage cultural differences?</p>						
	<p>iii. How should they deal with resistant behaviour?</p>						



#### 4.1.2 Conceptual framework and assumptions

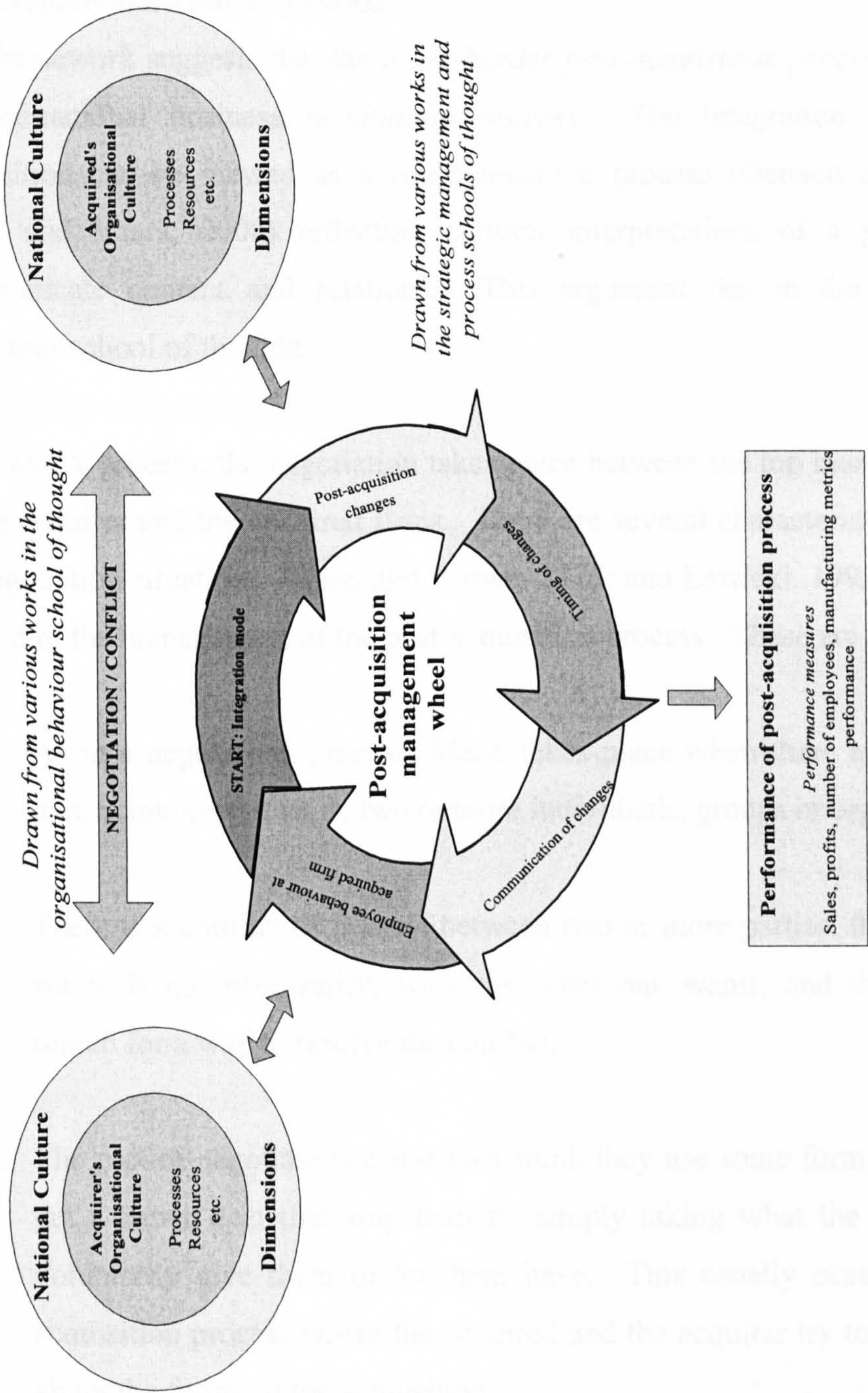
The conceptual framework (Figure 4.1) builds on the principle that ‘all value creation takes place after the acquisition’ (Child et al., 2001; and Haspeslagh and Jemison, 1991). The assumptions underlying the design of this framework are:

##### CONCEPTUAL FRAMEWORK’S ASSUMPTIONS:

- The decision to acquire is a **rational process** given the respective position of both firms. Assumes that the post-acquisition process is one of **joint-decision making** between the acquirer and the target. In other words it is not a hostile acquisition but a friendly takeover.
- The post-acquisition process is similar to a **negotiation process** (Gertsen and Soderberg, 1998; and Vaara, 2000) in a business setting in which control mechanism and procedures as well as access to knowledge and know-how are negotiated between the acquirer and the acquired. It is in this stage where employees are forced to work with each other, that they will encounter directly the cultural differences in values, beliefs and assumptions in cross-border mergers and acquisitions.
- **Culture influences** post-acquisition process and performance success. National culture has an influence on organisational culture (Kogut and Singh 1988; Datta and Puia, 1995; and GLOBE, 2002) and this in turn will affect the type of employee behaviour at the acquired firm.
- **Conflicts** that occur in the post-acquisition process are due to the force-field theory (Lewin, 1951) and that while the acquiring firm tries to implement changes, employees at the acquired firm resist changes.
- M&A is a corporate strategy (Porter, 1988) and **performance measurement** is based on value created from successful operational resources sharing, transfer of skills or transfer of general management skills. Success measurement is based on the acquirer’s annual company reports; and the management personnel perceptions; taking into account profit employees; and sales growth; and the manufacturing performance of the acquired subsidiary of the acquired company after the acquisition (based on the acquirer’s global manufacturing metrics).



Figure 4.1: Conceptual framework for post-acquisition process



Source: Author



## 4.2 THEORETICAL BASIS OF RESEARCH

This section posits the theoretical underpinnings of the conceptual framework seen in Figure 4.1.

### 4.2.1 *Negotiation-conflict process*

The framework suggests that the *cross-border post-acquisition process* is likened to an international business *negotiation process*. The integration process of an acquisition can be viewed as a communication process (Gertsen and Soderberg, 1998; and Vaara, 2000) reflecting cultural interpretations of a proper way to communicate content and relations. This argument lies in the organisational behaviour school of thought.

In an M&A process, the negotiation takes place between the top management teams of the acquirer and the acquired firms. There are several characteristics common to all negotiation situations (Rubin and Brown, 1975; and Lewicki, 1992) that could be applied to the management of the post-acquisition process. These are as follow.

1. As in a negotiation process, M&A takes place when there are two or more parties involved, that is, two or more individuals, groups or organisations.
2. There is a conflict of interest between two or more parties, that is, what one wants is not necessarily, what the other one wants, and the parties must search for a way to resolve the conflict.
3. The parties negotiate because they think they use some form of influence to get a better deal that way than by simply taking what the other side will voluntarily give them or let them have. This usually occurs in the post-acquisition process where the acquired and the acquirer try to come to a deal about the future of the acquisition.
4. Parties may prefer to search for agreement rather than to fight openly, have one side capitulate, permanently break off contact, or take their dispute to a



higher authority to resolve it. When the M&A parties involved cannot agree on a common strategy for the future, the acquirer might sever ties with the acquired through a divestment.

5. The negotiation process involves 'give and take' between parties as in M&A where the acquired and the acquirer learn from each other.
6. As in a negotiation, the management of intangibles ('soft' factors) as well as tangibles ('hard' factors') are equally important for success.

The negotiation is a *process* that can take place over a period, and mutual adjustment is one of the key causes of the changes that occur during the negotiation (Kolb, 1985; Gray, 1994; and Kolb and Putnam, 1997). This is similar to the management of the post-acquisition process where the acquirer and the acquired are dependent on each other for success.

Both parties in the negotiation (as in M&A) need each other for the deal to succeed. This mutual dependency is called interdependence. This is characterised by interlocking goals – where parties need each other in order to accomplish their goals. Both parties know they can influence each other's outcomes and their outcomes can in turn, be influenced by each other (Goffman, 1969; Ravena and Rubinm 1973; Pruitt and Rubin, 1986; and Ritor, 1996). This mutual adjustment continues throughout the negotiation as both parties act to influence each other (Eyuboglu and Buja, 1993; and Donohue and Roberto, 1996).

The potential consequence of the interdependence relationships in negotiation and in M&A is conflict. Conflict can be due to the highly divergent needs of the parties involved in the negotiation (and M&A), a misunderstanding that occurs between the parties, or some other intangible factors. In the M&A case, this can be applied to the conflict that occurs between the top management teams of the acquirer and the acquired firms.



## **Conflict in negotiation**

According to Deutsch (1973), conflict occurs and can escalate for the following reasons. These include competitive process, misperception and bias, emotionality, decreased communication, rigid commitments, and magnified differences or minimised similarities (Table 4.2). These conflict theories could be applied to describe the conflicts that occur during the post-acquisition process when both firms interact with each other.

These reasons for conflict can be applied to the typical post-acquisition process because the author believes it too is like a negotiation between two parties. Conflicts in M&A tend to occur on issues such as the future goals, future post-acquisition changes (Angwin, 1998), timing of these changes (Child et al. 2001), and the communication of these changes to the employees affected (Gertsen and Soderberg, 1998; and Vaara, 2000). There are always misperceptions in the post-acquisition process, fuelling gossip and fear. Also, the M&A process is a stressful time for employees involved and conflicts tend to arise and escalate in emotionally charged situations. As in all conflicts, parties involved in post-acquisition changes tend to become more rigid with their way of doing things and resist changes. Decreases in communication efforts from either party will lead to more apprehensiveness, and the overall effect of the conflict situation escalates.

In the conceptual framework, the negotiation process takes place between the two firms at various levels of the hierarchy. This process is influenced by the underlying cultural assumptions, values and beliefs, which influences the post-acquisition management wheel in terms of choice of integration mode. This in turn influences the degree of post-acquisition changes, the timing of these changes, the communication of these changes and the resulting employee behaviour at the acquired firm who are affected by the changes. Careful management of the entire wheel determines the performance of the M&A and this is measured by changes in sales, profits, and employee turnover.



Table 4.2: Factors that cause and escalate conflict

Factors that cause conflicts in negotiations (Deutsch, 1973)	Definition of factor	Evidence in M&A literature that such factors influence the M&A process	Author(s)
Competitive process	Parties involved see the negotiation as a competitive process where parties compete with each other as they believe that their goals are in opposition.	Top management teams of both firms involved in M&A cannot agree on the corporate goals for the future.	Angwin (1998)
Misperception and bias held by individuals	People tend to view things consistently with their own perspective on the conflict hence tend to interpret people and events as being either on their side or on the other side.	The acquired workforce does not always share the same perceptions and changes are met with resistance.	Cartwright and Cooper (2000)
Emotionality	Conflicts are emotionally charged as parties become anxious, irritable, annoyed, angry, or frustrated during the negotiation process. Emotions are able to dominate thinking.	People involved in the acquisition process become too engrossed with the daily gossip that they forget that they are employed to do a job.  Mergers are stressful as employees are dealing with feelings of loss and uncertainty.	Hubbard (2001)  Cartwright and Cooper (2000)
Decreased communication	Parties communicate less with those who disagree with them.	Communication is necessary in M&A process but it is difficult to deliver it effectively. Employees at the acquired firm prefer more communication than no communication at all.	Hubbard (2001)
Rigid commitments	Parties become locked into positions as the other side challenges them. Parties become more committed to their points of view and less willing to back down from them for fear of losing face and looking foolish. Thinking processes become rigid and the parties tend to see issues as simple	When forced to give up their identity, organisation members resist openly or show resignation but at a deeper level continue to resist.  “This is how we did it...” was a common phrase found in Smircich’s study of insurance company,	Olie (1995)  Smircich



	and “either/or” rather than as complex multi-dimensional.	which became part of a much larger organisation serving agriculture.	(1983)
Magnified differences, minimised similarities	As parties lock into commitments and issues become blurred, they tend to see each other and each other’s positions as polar opposites. All the factors that distinguish and separate them from each other become highlighted and emphasised, while any similarities and commonalities that they share become oversimplified and minimised. This perceptual distortion leads parties to believe that they are further apart from each other than they really may be, and hence work harder to “win” the conflict and work less hard at finding common ground.	‘Personality clashes’ tend to increase between members of both firms as time passes. This can result in lost of talent through voluntary resignations.	Cartwright and Cooper (2000)
Escalation of conflict	Each side becomes more entrenched in its own view, less tolerant, accepting of the other, more defensive, less communicative, and more emotional. Escalation can increase levels so high that the parties destroy their ability to resolve the dispute or ever to deal with each other again.	Occurs in cross-border M&A because there are dual conflict clashes in terms of corporate culture and national culture.	Larsson and Rishberg (1998)

Source: Author



#### ***4.2.2 Post-acquisition management wheel***

The issues involved in the post-acquisition management in the conceptual framework draws from the works of Child et al. (2001). According to them, there are three issues to address in the post-acquisition process:

- The execution mode or degree of integration and control the acquiring company decides to introduce into the acquired company.
- The degree and type of change introduced into the acquired company.
- Timing of changes where the processes of change such as new practices and an integration platform are introduced. Organisational and national cultures of the acquiring company and the acquired company have a close bearing both on the integration and on the process of change.

Hence with these in mind, the current author posits that the factors that influence the post-acquisition management consist of the choice of integration mode which affects the degree of post-acquisition changes, the timing of these and the communication of these changes, and the impact on the acquired employees and their resulting behaviour. These are discussed next.

#### **Choice of integration mode**

Integration is an interactive and gradual process in which individuals of the acquired firm and the acquiring firm learn to work together and cooperate in the transfer of strategic capabilities. Creating the right atmosphere is a challenge. Reciprocal organisational understanding, willingness among employees to work together, capacity to transfer and receive capabilities and the ability to commit additional resources to foster the atmosphere, are crucial to creating the right atmosphere.

Haspeslagh and Jemison's framework (1991) of post-acquisition integration strategies remains the most influential analysis on the appropriate degree of integration with the acquired company. The authors suggest two key dimensions that



provide a basis for choosing a particular approach to post-acquisition integration: (1) the need for strategic interdependence in order to secure value that would not exist if the firms operated separately, and (2) the need for organisational autonomy. These two dimensions suggest four types of post-acquisition integration, which were seen in Chapter 2. These were mainly absorption, preservation, symbiotic, and holding integrations.

During the implementation of post-acquisition process, the severity of the problems that occur can be traced back to the resource allocation style of the firm (Haspeslagh and Jemison, 1991). In some companies, the allocation style is more robust and adaptable than in others. The following characteristics affect the integration style a company will adopt:

- ***Managerial Time Horizon.*** According to Haspeslagh and Jemison (1991), experienced successful acquirers are more tolerant about different expectations of financial returns, depending on the strategic purposes of the acquisitions. If the acquisition's purpose is of domain defence or domain strengthening nature, managers must be tough-minded about realising the financial benefits. But, if the acquisition took the form of a complex domain extension strategy, managers must be flexible in providing available resources for post-acquisition integration.
- ***Concept of Competition.*** The ways managers conceived the basis of competition and the extent to which they view the capabilities-based perspective, affect the resource allocation process.
- ***Substantive Involvement of Top Management.*** This depends on the size or how diversified the company is. The larger and more diversified it is, the less top management can be involved in the detail of resource commitment decisions. One way to cope with this is to rely on 'general managers in the middle' (Haspeslagh and Jemison, 1991) or channel substantive discussion through a regular business planning review process. The extent of the top management involvement has implications for political and risk-sharing aspects of resource



allocation decisions. A firm is more likely to develop an analytical tradition of examining all facts and sharing risk for key decisions, if the discussions across organisational levels are truly substantive.

- ***Basis of Decision Making.*** Consists of analytical and political components that vary greatly across companies. “Analytical” process is largely based on a presentation and discussion of facts in which information is expected to be condensed but not skewed. Conversely, “political” process is exercised by editing and massaging data to filter out most indications of uncertainties and risks.
- ***Nature of Decision Making.*** Whether the analytical or political approach is adopted depends on the qualitative aspects of the management’s operation as a team and the extent to which the decision-making process depends on a single champion at each level.

The resource allocation styles, which Haspeslagh and Jemison (1991) identified in their research, are seen in Table 4.3. They found that the acquisitions that adopted the “robust” style were more adaptable to a wide range of acquisition challenges. The drawback was the perceived slowness of decision. But this is compensated by the more thorough preparation of post-acquisition issues.

The level of integration is based on multiple decision criteria (Pablo, 1994) such as strategic tasks needs, organisational task needs, cultural factors and political factors. Lindgren and Spangberg (1981) maintain that the more related the acquisition, the higher is the degree of integration necessary in order to achieve the synergy needed to create benefits. To complement this study is Datta and Grant (1990) who found that the autonomy given to acquired firms’ managements in unrelated acquisitions is typically greater than in related acquisitions, and that this autonomy is positively associated with acquisition success.



Table 4.3: Resource allocation styles

FACTORS	LIMITED ↔ ROBUST
Managerial time horizon	Short Long
Concept of competition	Results Capabilities
Substantive involvement	Low High
Basis of decision making	Political Analytical
Nature of decision making	Singular Consensual

Source: Haspeslagh and Jemison (1991)

Table 4.4 provides an overview from the literature of the differences in execution or integration M&A strategies in terms of managerial approach, number of people involved in the post-acquisition process, time frame to achieve M&A targets, the degree of structural changes, degree of risks involved, value captured, and the degree of possible cultural clashes.



Table 4.4: Summary of the various integration modes

	Absorption/Dependence/ Full integration	Symbiosis/ Interdependence	Preservation/ Independence
Managerial approach	Top down	Partnership	Limited change
Main focus of intervention	Across both acquirer and acquired	Focus mostly on the acquired firm	Limited or no intervention
Value captured	Skills transfer Resource sharing Revenue enhancement	Skills transfer Cost savings	Continuity
Number of people involved	Majority	Many	Few (only top management)
Time frame to achieve targets	Medium / long-term	Medium / long-term	Continuity
Degree of structural change	High	High / medium	Low
Working style	Common processes across Hierarchical Centralised decision-making	Many teams and processes Horizontal Decentralised decision-making	Limited change
Degree of risk	High	High / medium	Low
Degree of cultural clashes between acquirer and acquired	High (both national and organisational cultures)	High / medium (both national and organisational cultures)	Low (only national culture)

Sources: Derived from works of Haspeslagh and Jemison (1991); and Morosini (1998)



### **Post-acquisition changes**

Research in this area is still highly fragmented. Attention in the literature is given to human resource issues, which include human resource planning and downsizing, training, and changes to systems for communications and rewards (Napier, 1989). There is little research into the timing and effects of post-acquisition changes and Angwin (1998) provides a useful review.

Angwin (1998) suggests that there are clear parallels between post-acquisition management and corporate turnarounds, and he draws upon turnaround studies such as Slatter (1984) and Grinyer et al. (1988) to identify the main areas of change involved. These major changes in management include the CEO; stronger financial controls; intensive efforts to reduce production costs; an increased importance given to marketing, especially customer relations and a new product market focus; and debt reduction. The evidence also indicates that CEOs appointed from outside the acquired company will replace more subordinates and generally bring about more change than will an insider CEOs who hold continuing appointments or come from other positions within the acquired firm.

The turnover of top managers from acquired companies is appreciably higher than in other companies, even though some acquirers may wish to retain their experience and expertise. Walsh (1988) for instance, found that top management turnover following acquisition is higher than the normal level and senior executives are the first to leave. The first area of management practice to be integrated with that of the acquiring companies is to impose financial control at the start of the post-acquisition phase.

### **Timing of changes**

The pace of implementing post-acquisition changes is a conflicting issue in the literature, with some researchers arguing that immediately after the close of the deal there is a period when employees at the acquired company wait and even welcome change (Searby, 1969; and Shrivastava, 1986), while other researchers argue that firms should “go slow” (Yunker, 1983) and prepare people for change.



Management's ability to implement changes affects the way employees perceive the trustworthiness of post-acquisition leadership (Mayer et al., 1995). Researchers that encourage quick change, argue that since employees expect and wait for changes in the acquired company, quick-change implementation helps reduce uncertainty (Searby, 1969; Shrivastava, 1986; and Schweiger and DeNisi, 1993). Some researchers argue that slow-change implementation is not a result of strategic planning, but a sign of ineffective management (Haspeslagh and Jemison, 1991).

However, there is the argument that people in a state of shock after the M&A can only accommodate a limited amount of change each time (Buono et al., 1985). Rosnow (1980 and 1988) argues that the acquiring management needs time to learn about the acquired company before design and implementation change. Frequent and useful communication during this period will increase employee trust of management and will make changes easier. This is supported by Napier et al. (1991) suggesting that a period of "adjustment" and "getting to know each other" should be permitted before any major changes are made.

In this study, the view is that if change implementation is too slow the "we-they" syndrome will persist for a longer period. Even after the acquired employees have overcome the denial and angry stages and enter the bargaining stage (where they try to maintain something from the past) such as retaining some policies, some procedures (something from "our way of doing things"). The resulting conflict prevents a good working relationship between the acquired and acquired company.

### **Communication of changes**

Communication is a vital element in the post-acquisition management process. Studies have found that in the months following acquisition adequate communication is correlated highly with employees' feelings of personal control, organisational commitment, lower uncertainty, increased performance and job satisfaction. When the communication stopped, employees experienced increased distraction, guilt, absences and job insecurity (Davy et al., 1988). Mitchell and Holmes (1996) also reported that the single most important cause of poor motivation, general discontent,



and rumour generation during acquisition was under-communicating. There is also a reported drop in employee trust, in feelings that the acquisition implementation was fairly handled, in management credibility, and increased intention to leave the organisation, according to Hubbard's (2001) study.

Therefore, communication strategy has been added to the wheel of managing the post-acquisition process. The definition of communication adopted in the post-acquisition process encapsulates both formal verbal and written communication and informal communication, actions, rumours, gestures and feedback; even no communication at all is communication (Hubbard, 2001).

During acquisitions, communication is important in setting the tone, as well as conveying a message to the affected parties (Hubbard, 2001). It is often the first contact that the acquired employees have with their new owner; therefore, its impact is more pronounced. Messages for affected employees during the post-acquisition process will differ: in some cases, the employees will experience less dramatic changes and others more so. The key is to differentiate between employee messages in an honest and timely manner. Smeltzer's (1991) study on 43 large organisations in the process of organisational change highlighted the need for timely and accurate communication during times of change as when this is present, negative rumour spreading is kept to a minimum. This study resulted in a model for effective communication (Figure 4.2). This model consists of three elements: communication content, channel and timing, and these are integral to the dissemination of information surrounding change (including acquisitions).

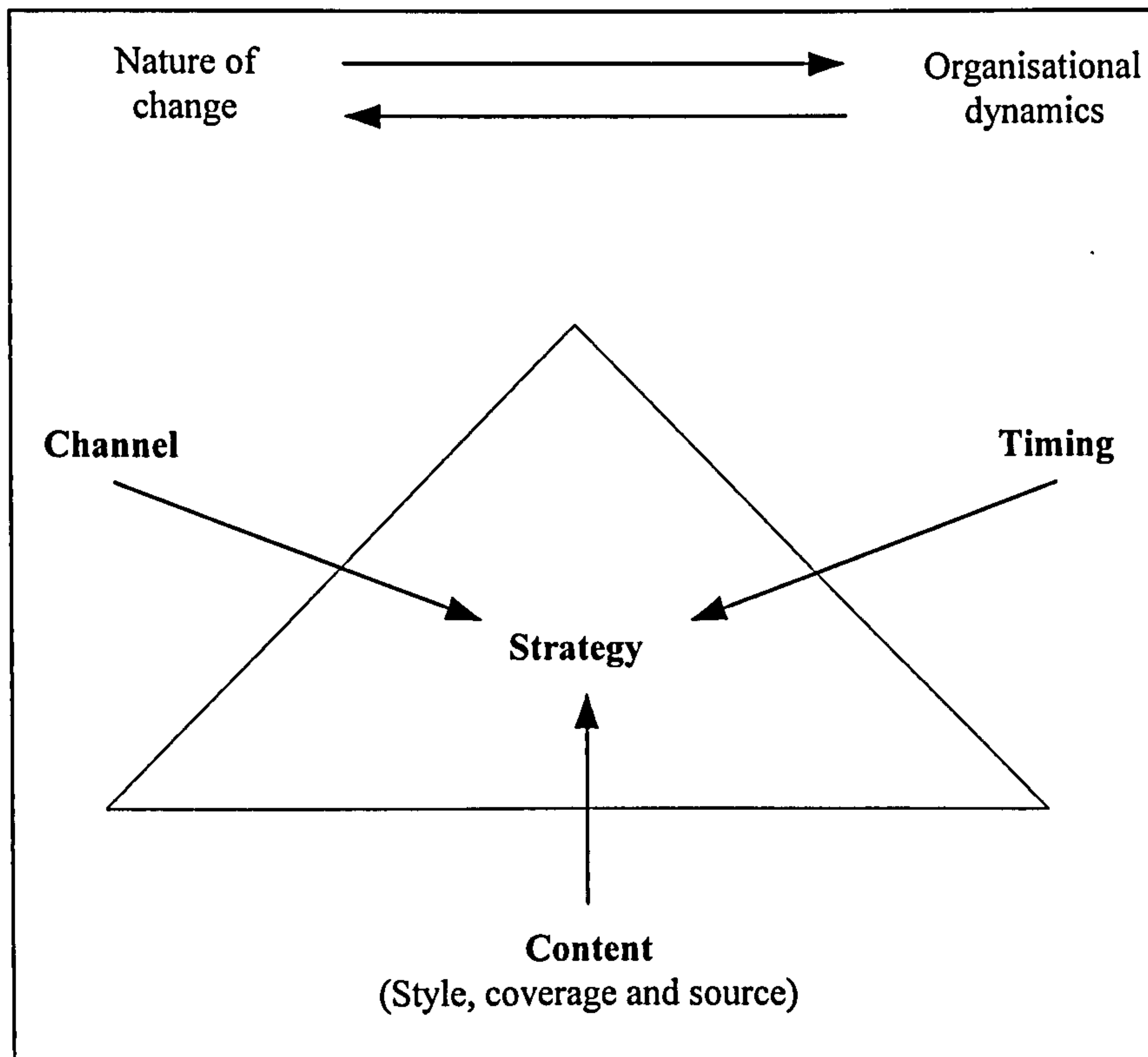
It is important to get the three elements right to ensure effective communication during the acquisition. For example, in respect of timing, the earlier the acquirer is able to reduce uncertainty by giving an honest and clear communication, the more successful the communication would be perceived to be, in spite of the message.

As for the issue of channel element, it too is of vital importance during the post-acquisition process. The choice of channel chosen must be appropriate for the



message being disseminated. For example, for large amounts of detailed information, written communication might be most effective.

Figure 4.2 Model of effective communication during change



Source: Smeltzer (1991)

Similarly, in content, element comprising of coverage, style and source must be taken into consideration. For example, announcing redundancies following the acquisition should come from a suitable source such as senior management, followed by written confirmation, thereby reflecting the gravity of the situation (Hubbard, 2001).

Aside from the above three elements for effective communication during the post-acquisition process, Hubbard (2001) highlights the need for the following: honest communication; consistent information; and believable communication. Hubbard (2001) argues that honest communication is the most important element of effective communication during the acquisition. Her research found that employees would rather know all information including bad news rather than know nothing, be told



incorrect platitudes from management or hear of future events in sugar coated terms. She also found that consistent information is a key factor in managing employee expectations. In cases of inconsistent information, the acquirer may be accused by employees of hidden agendas, secrets, and political manoeuvrings within the context of a low trust environment. The third factor is the believability of the information communicated and this is closely related to the honesty of the communication.

This brings us to the topic of employee behaviour in the acquired firm because of the post-acquisition changes, timing and the communication of them.

### **Acquired employee behaviour: Resistance theory**

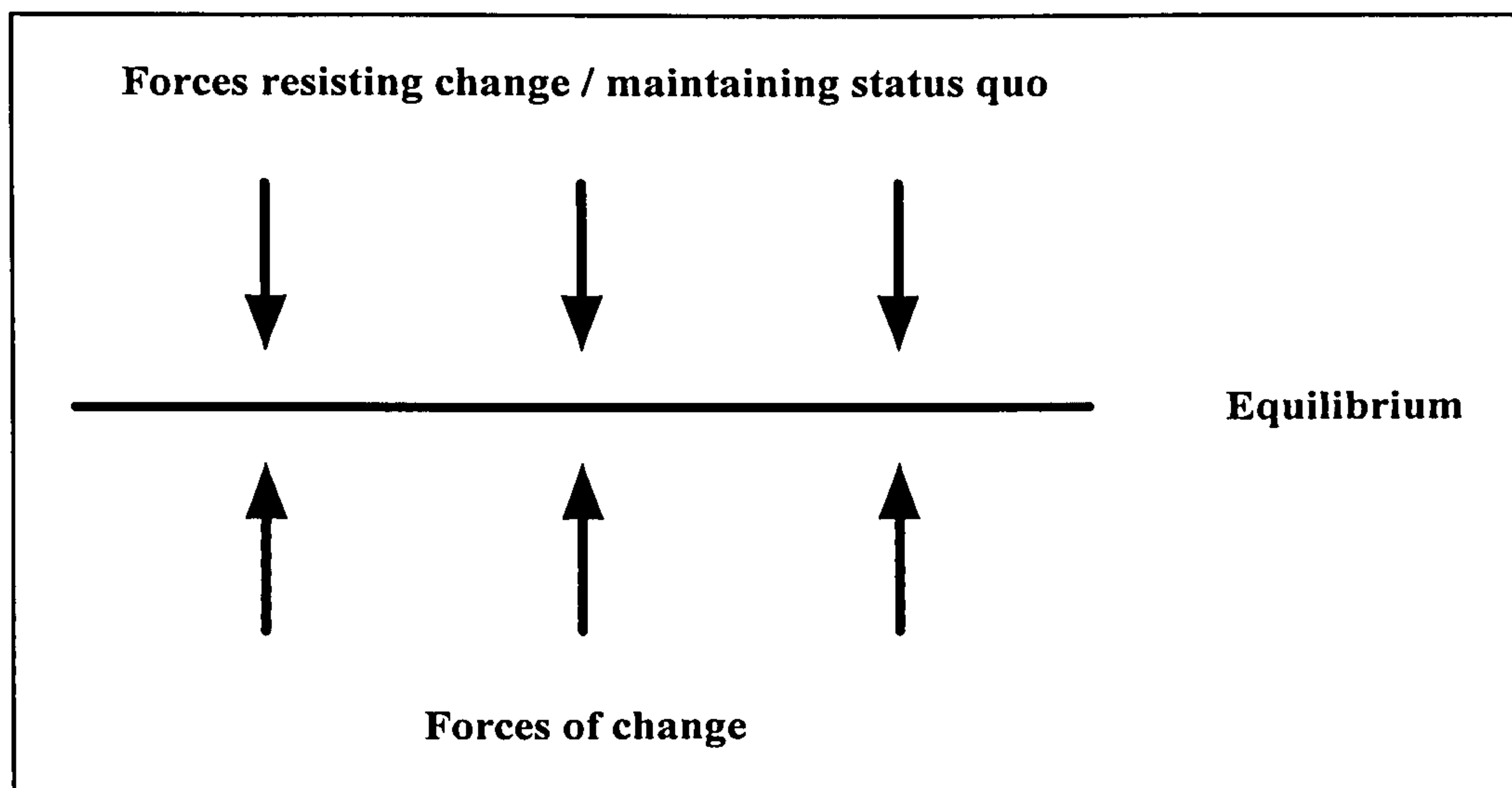
The dimension of employee behaviour in the conceptual framework is drawn from Kurt Lewin's (1951) classic theory as to *why people change*. This dilemma was illustrated with his classic notion of "force-field theory". The theory suggests that all behaviour is the result of an equilibrium between two sets of opposing forces (what he calls 'driving forces' and 'restraining forces'). Driving forces push one way to attempt to bring about change; restraining forces push the other way in order to maintain a status quo (Figure 4.3).

Generally, human beings tend to prefer to use driving forces to bring about change. They want to "win" by exerting pressure on those who oppose them. But according to Lewin's model, the more one side pushes, the more the other side resists, resulting in no change. This research assumes that this opposing behaviour is magnified in cross-border context.

The best way of overcoming resistance therefore is by focusing on the removal or at least weakening of the objections and fears of the resistance side through a three-stage approach (which was later adapted by Schein, 1964). The first stage commences with unfreezing existing behaviour (i.e. gaining acceptance for change); the second stage is changing behaviour (i.e. adopting new attitudes, modify behaviour – usually requires change agent); and the third stage is refreezing new behaviour (i.e. reinforce new patterns of thinking/working).



Figure 4.3: Lewin's force-field theory



Source: Lewin (1951)

According to Porter (1996), Lewin's method of dealing with changes represents a successful corporate strategy. Therefore, if a company is able to achieve this method in cross-border M&A, it will have a competitive advantage.

However, this is easier said than done. In the change management literature, Woodcock and Francis (1990) identified fourteen categories of organisational blocks to change. These include unclear aims, unclear values, inappropriate management philosophy, and lack of management development, confused organisational structure, inadequate control, inadequate recruitment and selection, unfair reward, poor training, personal integration, inadequate communication, poor teamwork, low motivation, low creativity. Any of these are assumed to influence the levels of resistance adopted in the post-acquisition process.

The various types of employee behaviour in cross-border post-acquisition were drawn from Galpin's work (1996) on change management. These included:

- *Willing/cooperative behaviour*: willing to make the necessary post-acquisition changes for the integration mode chosen.
- *Not willing/hostile behaviour*: personal reluctance to make the effort to change.



- *Not able behaviour*: lack of ability to perform the post-acquisition task made necessary for the change.
- *Not knowing behaviour*: represents lack of knowledge and information about the integration effort.

In any post-acquisition situation, the willing cooperative behaviour would be the goal of any firm involved in M&A as this means that the employees involved are happy to change and are willing to work towards the M&A goals. There will be very little resistance and low employee turnover.

On the other end of the continuum, is the not willing hostile behaviour. This occurs when employees are unhappy about the new management and the changes to which they have to adapt. It is posited that many employees will leave the firm and take along their years of experience with them, thus causing a lack of expertise in the acquired firm.

#### ***4.2.3 Cultural forces influencing the post-acquisition management wheel***

The literature drawn on cultural differences is derived from the organisational behaviour school of thought. The effects of culture can take place in early stages of the acquisition process but are especially crucial in the post-acquisition management process.

However, not many studies have researched both national and organisational cultures and the impact on the post-acquisition process. Many of the studies on cultural differences in M&A are reflected in the management styles and practices. The differences can result from either national or organisational cultures (Lindgren and Spangberg, 1981; Buono et al., 1985; Marks and Mirvis, 1992; Norburn and Schoenberg, 1994; and Carrington, 1997).

The impact of acculturative stress (Berry, 1983; and Nahavandi and Malekzadeh, 1988) on the outcome of M&As is an issue investigated by management literature. Most management research about culture has assumed that cultural differences imply



acculturative stress. Recent research on European M&As (Very et al, 1996) showed that national cultures sometimes influence acculturative stress but not always in the expected direction. Some examples of cultural differences elicit perceptions of attraction rather than stress. Another important finding of the latter study is that some cultural problems associated with combining organisations are more amplified in domestic rather than in cross-national settings; this finding is completely opposite of previous studies (Schneider and DeMeyer, 1991; and Very, Calori and Lubatkin, 1993). It would be a fallacy to assume familiarity simply because the buying firm and the acquired firm share the same national culture.

These contrasting results clearly indicate a need for further research in order to clarify a phenomenon, which is much more complex than that proposed by business researchers. Weber (1996) criticises the fact that most of the work about conflicts in M&A is anecdotal or non-theoretical in nature. Attempts to build more sound frameworks (Calori, Lubatkin and Very 1994; Morosini and Singh 1994; Morosini, Very Lubatkin and Calori, 1996; and Shane and Singh 1998) showed that culture is not an easy construct to manipulate and results are often contradictory from study to study.

For the purpose of this study, the author assumes that both national and organisational cultures influence the success of the post-acquisition management process. A multi-dimensional cultural interface developed is explained in the final section of this chapter.

#### ***4.2.4 Post-acquisition performance***

There has been considerable debate as to the most appropriate and accurate way in which to assess M&A gains, both in terms of indices used and the appropriate time span over which to judge performance (Lubatkin, 1983 and 1987) as discussed earlier in relation to the capital markets school of thought.

Many studies found that M&A as a corporate strategy for most companies has dissipated instead of created value. Corporate strategy concerns two different



questions: what businesses should the corporation be in, and how should the corporate office manage the array of business units (Porter, 1987). Many studies have blamed the failure of cross-border M&A to the 'hard' (performance related) and 'soft' (cultural issues) factors involved in the acquisition process. More recently, the management 'soft' factors in the post-acquisition process have been highlighted as crucial factors to success or failure.

According to Porter (1996), "a company can outperform rivals only if it can establish a difference that it can preserve. It must deliver value to customers or create comparable value at a lower cost or do both." Therefore, it is crucial today for companies who employ cross-border M&A as their corporate strategy for international production, to identify a successful management formula for the post-acquisition process. Successfully identifying the success formula would provide the company with a competitive advantage.

The success of an acquisition depends on the ability to create added value after it has taken place. However, the mere existence of potential value creation or synergism is no guarantee that this possibility will be realised. Research indicates that M&A have a negative impact on the economic performance of the new entity (Marks, 1999; Tetenbaum, 1999; and Cartwright and Cooper, 1993). Also, realising performance gains can actually take several years and commonly touted operating synergies such as economies of scale can turn out to be extremely complex and difficult management tasks (Kitching, 1967; Mueller, 1980; Finkelstein, 1986; and Haspeslagh and Jemison, 1991) aggravated by conflict between the acquiring firm and the acquired firm (such as organisational fits, cultures).

### **Measuring post-acquisition synergies**

The primary purpose of merging and acquiring firms is usually to improve overall performance (Lubatkin, 1983) by achieving synergy, or the more commonly described as the "2+2 = 5" effect (Hovers, 1971; and Cartwright and Cooper, 1993) between two business units that will increase competitive advantage (Porter, 1985; Weber, 1996).



Success can be measured through synergies that the acquirer and the acquired firms are able to derive from their combination. Synergies according to Porter (1987) can be obtained through two types of interrelationships. Firstly, is the company's ability to transfer skills or expertise among similar value chains; and secondly, the ability to share activities (e.g. same sales force, purchasing, logistics network, etc.). Value creation embodies the outcome of what many people refer to as synergy. It is the result of managerial actions and interactions between the firms.

This theoretical concept of measuring performance was later adopted by Haspeslagh and Jemison's study (1991). According to them, synergy in M&A occurs when capabilities are transferred between firms improve a firm's competitive position and consequently its performance. There are three main kinds of capabilities that can be transferred between firms involved in M&A, namely operational resources sharing, transfer of functional skills, and transfer of management skills.

- **Operational Resource Sharing.** This means combining sales forces, sharing manufacturing facilities, trademarks, brand names, office space, or distribution channels etc. The purpose is to create value through economies of scope or scale. In order to create value, the benefit of sharing resources must outweigh the hidden costs of compromise.
- **Transfer of Functional Skills.** Value is created when functional skills are effectively transferred between firms. It is the primary challenge of firms. The more strategic the skills to be transferred, the more difficult it will be to achieve the required understanding and cooperation in this teaching and learning process. The more difficult a capability is to imitate, the longer it will take to learn and apply. Horizontal transfer among managers at operational levels in both organisations take place.
- **Transfer of Management Skills.** This occurs when one firm can improve the competitiveness of another by improving the general management skills through subtle coaching, direct involvement, or imposition of systems. This differs from



functional skills transfer in that this implies mainly vertical interactions between acquired unit and the acquiring organisation it reports to.

However, managing the post-acquisition process is a tedious and uphill battle between the merging firms. This is because the combination of firms involves the negotiation of changes and the conflicts and resistance that consequently evolve from the imposed post-acquisition changes. The degree of acceptance of these changes is embedded in the cultural values of the individuals involved in the post-acquisition process.

### **4.3 A MULTI-DIMENSIONAL FRAMEWORK OF CULTURE FOR POST-ACQUISITION MANAGEMENT**

The following section is of key importance to the conceptual framework seen in Figure 4.1. This section introduces the reader to the NC and OC approach adopted for the purpose of this study. The current author perceives NC and OC as a multi-dimensional construct that interacts with each other to influence the post-acquisition process.

The controversy that surrounds the nature and impact of organisational culture on individual employee behaviour and company performance is to some extent echoed in the discussions of the effect of national (societal) cultures on organisations. Fombrun (1984) saw organisation culture being partly the outcome of societal factors, while Laurent (1981) argued that the cultures of countries were more powerful and stable than those of organisations. In this study, the researcher assumes that NC and OC are not identical phenomena and cannot be termed collectively as 'culture'. As Hofstede (1994, p. 181) argues *"a nation is not an organisation, and the two types of 'cultures' are of a different nature."*

The interactivity of OC and NC of the researcher's multi-dimensional framework of culture is based on Van Maanen and Barley (1985, p.33) suggestion of the four interconnected conditions that reflect on the genesis, maintenance and transmission in the firm. These domains concern the ecological context, which the group exists in,



the differential interaction of group members, the interpretation of objects and events and finally the reproductive capacity of individuals.

Culture exists at various levels, in a group, in an organisation, and in a nation and evolves differently (Table 4.5). However, each level is not static and tends to interact with another cultural level. In fact, many researchers share the view that organisations exist within cultural contexts (Neelankavil et al., 2000). Although Hofstede (1994) sees national and organisational cultures as phenomena at different levels, he feels they are linked. He argues that organisation cultures are supported by employees’ societal values, while national cultural differences reside in practices at organisational level. As a result, management assumptions, organisational structure and functions are influenced by national culture (Hofstede, 1980).

Table 4.5: Interactions of NC and OC

	National culture	Corporate culture
Definition	Differences within countries and similarities between countries	Many managers recognize differences between companies rather than between countries
Evolved from	Geography, history, political, and economic forces, language and religion	Influenced by the nature of industry, business, and product
Reasons for differences	Within national borders  Beyond national borders. Country clusters have geographical, religious, linguistic, or historical ties which cut across national boundaries	Role of founder  Strong leaders  Administrative heritage  Stages of development  Nature of product
Interaction effects	National culture interacts with corporate culture in ways which may converge, creating opportunities for competitive advantage	

Source: Adapted from Schneider and Barsoux (1997)

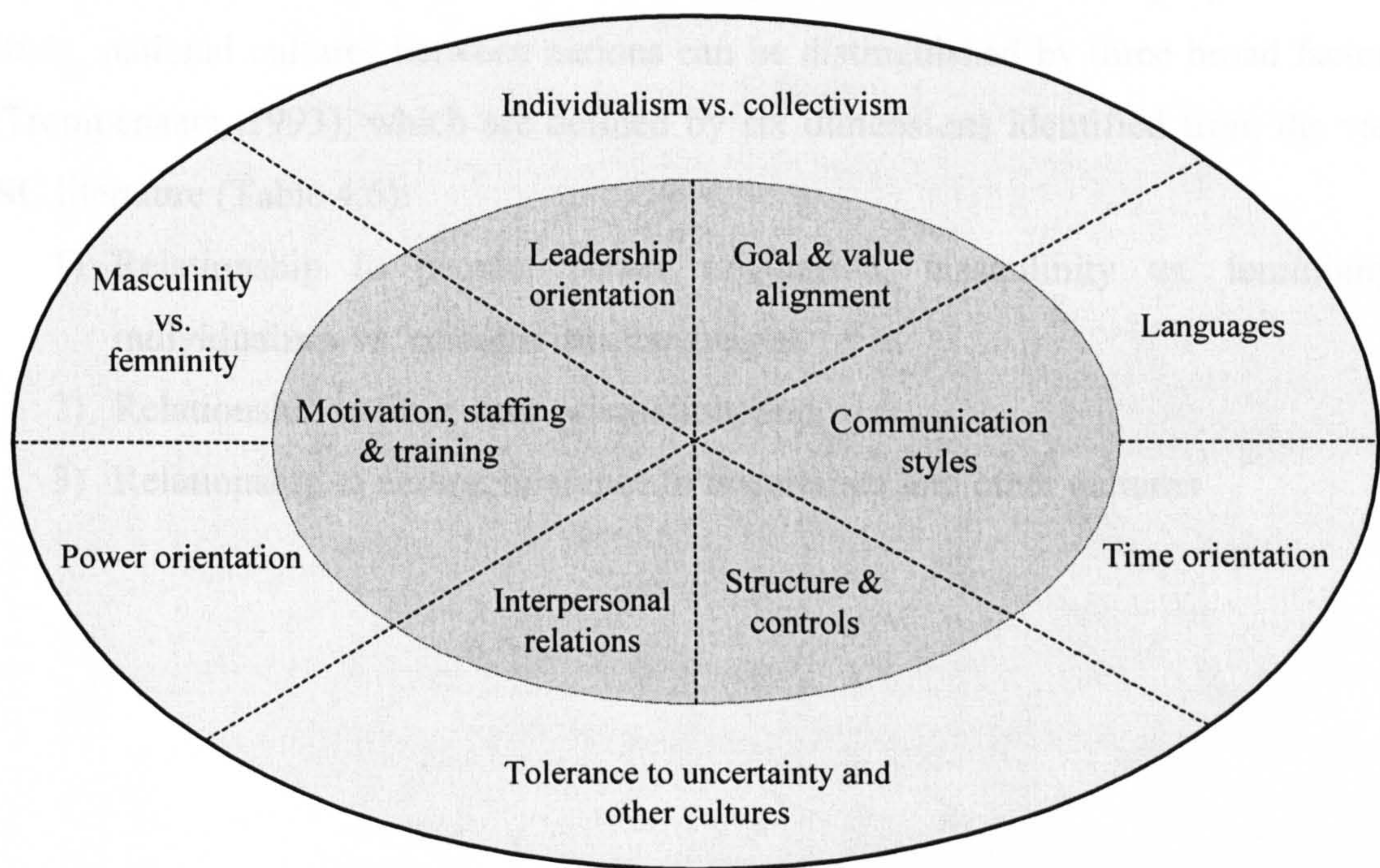
Therefore, the central tenet for the multi-dimensional framework (seen in Figure 4.4) is that NC interacts with OC. In order to identify the dimensions of culture, the current author conducted an in-depth two-stage content analysis of the literature discussed in Chapter 3.



- First stage: Examined cultural studies by looking primarily at three bodies of literature in the social sciences, namely international business management, strategic management and organisation theory.
- Second stage: Recorded the notions of NC and OC discussed in each study and then noted the specific dimension(s) that could be extracted for the purpose of this study.

In the end, the review of the studies resulted in a consolidation of the related notions giving rise to six OC dimensions and six NC dimensions as seen in Figure 4.4.

Figure 4.4: A multi-dimensional framework of NC and OC



Source: Author

The outer layer of the framework encompasses the NC dimensions, which interact with the inner layer of OC dimensions. The current researcher assumes that the six NC dimensions can interact with any of the six OC dimensions. These twelve dimensions are discussed in the remaining part of this chapter.



### 3.4.2 NC dimensions

*The NC dimensions selected for the purpose of this study draw on the concept that national culture is difficult to change and remains stable for many years, even generations.*

Laurent (1989) argues cultures of countries are more powerful and stable than those of organisations. The differences in national cultures have implications not only for the selection and negotiation of any cross-border M&As but also for the joint formulation of future business strategies during the post-acquisition stage.

There were distinct overlaps of dimensions between the various landmarks studies in the current NC literature as analysed in Chapter 3. Hence, for the purpose of this study, national cultures between nations can be distinguished by three broad factors (Trompenaars, 1993), which are defined by six dimensions identified from the vast NC literature (Table 4.6):

- 1) Relationship to people: power orientation, masculinity vs. femininity, individualism vs. collectivism, languages;
- 2) Relationship to time: time orientation; and
- 3) Relationship to nature: tolerance to uncertainty and other cultures



Table 4.6: A classification of NC dimensions adopted for this study

Classification	Dimensions of NC	Key themes in literature	Key references
Relationship with people	<b>Power orientation</b>	Power distance; Ascription vs. achievement; Doing vs. being; Autonomy	Hofstede (1980); Trompenaars (1993); Steenkamp (2001); GLOBE (2002)
	<b>Masculinity vs. Femininity</b>	Femininity vs. masculinity; Universalism vs. particularism;	Hofstede (1980); Trompenaars (1993); and GLOBE, 2002
	<b>Individualism vs. collectivism</b>	Individualism vs. collectivism; Specific vs. diffuse; Importance of friendships;	Hofstede (1980); Schein (1985); Trompenaars (1993); and GLOBE (2002)
	<b>Language</b>	Explicit vs. implicit; Affective vs. neutral	Hall (1960); Trompenaars (1993); and Vaara et al. (2000)
Relationship with time	<b>Time orientation</b>	Past/present/future orientation; Monochronic vs. polychronic; Sequential vs. synchronic; Long-termism	Kluckhohn & Strodtbeck (1961); Hall (1976); Hofstede (1980); Schein (1985); Trompenaars (1993); and GLOBE (2002)
Relationship with nature	<b>Tolerance to uncertainty and other cultures</b>	Uncertainty avoidance; Internal vs. external control; Parochial self interest; Conflict resolution	Hofstede (1980); Bedeian (1980); Trompenaars (1993); Steenkamp (2001); and GLOBE (2002)

Source: Author



## **Relationship with people**

- **Power orientation**

Countries with high power orientation tend to value status and achievement in the society or organisation (Hofstede, 1980; Trompenaars, 1993; and GLOBE, 2002). The head of the family or the CEO of a company reins control over the family members or subordinates due to superiority, autocratic nature. On the other hand, low power orientation respect for the leader is based on knowledge and skills. Decisions made by the CEO or head of the household can be challenged by the subordinates or family members. These societies are more democratic, participative in nature.

- **Masculinity vs. femininity**

People in a more masculine society tend to be more assertive and would aspire for material success. This means the focus of such countries is to follow the rules, where a trustworthy person honours his word or contract. Whereas in a feminine society, men and women are supposed to be modest, tender and concerned about quality of life. People may not adhere to the rules strictly, as relationships are more important.

- **Individualism vs. collectivism**

This dimension draws from Hofstede's (1980), Schein (1985) and Trompenaars's (1993) works. Basically, do people regard themselves as individuals or part of a group? Individualistic countries tend to be more impersonal and efficient in the way they carry out their daily duties. They tend to be more mobile in search of achievement and status in their personal lives and in their careers. On the other hand, collectivist countries tend to draw on consensus decision-making and place loyalty to the group they belong to rather than themselves. They place a high value on friendships and relationships when carrying out their duties.

- **Languages**

This draws on Hall's (1960) implicit and explicit concept and Trompenaars (1993) affective and neutral concept. This dimension takes into account the verbal and non-verbal behaviour of a society. It is closely related to the nature of the human



interactions to be objective and detached or expressive in emotions. It also takes into account the degree of knowledge of other spoken languages, whether the society is multi-lingual or bi-lingual. It grades the willingness of the society to learn foreign languages, as it is usually easier to conduct business abroad with the local language.

### **Relationship with time**

- **Time orientation**

Kluckhohn and Strodtbeck (1961) suggest that organisations and institutions may have differing orientation towards time. The temporal orientation is associated with how particular organisational cultures perceive time and the temporal mode of society. For instance, in an OC that a past orientation dominates, preservation of the status quo is favoured. In organisational cultures where a present orientation dominates, spontaneity is valued, while in organisational cultures where a future orientation dominates, dynamism and proactive planning is highly emphasised (Kluckhohn and Strodtbeck, 1961; and GLOBE, 2002). According to Peters and Waterman (1982), future oriented firms excel in innovation.

In terms of culture's orientation to time, Hall (1976) distinguishes between polychronic and monochronic cultures. In the context of OC research, Onken (1999) suggests that a monochronic OC embraces time as a linear concept. Members of monochronic organisational cultures tend to embrace schedules and perform one thing at a time. Members of polychronic organisational cultures tend to embrace the performance of a number of activities at the same time.

### **Relationship with nature**

- **Tolerance to uncertainty and other cultures**

This dimension measures how an individual views environment uncertainties (Hofstede, 1980) and how the individual controls nature (Trompenaars, 1993). Societies that feel threatened by the unknown tend to have an internally controlled nature with many rules and regulations (GLOBE, 2002). They tend to be 'closed' to embracing cultural differences, as they think their way of doing things is culturally correct. On the other hand, societies that are more willing to embrace the unknown



will often have more flexible attitudes and are willing to compromise to keep peace. They also tend to be more tolerant when encountering cultural differences.

### ***3.4.2 OC dimensions***

The OC dimensions selected for the purpose of this study draws on the notion that OC develops over time in response to a complex set of factors to reinforce the stability and adaptation of the organisation in the changing environmental conditions (Handy, 1993; and Weick, 1985).

The researcher assumes that when two organisations with diverse corporate cultures are involved in the M&As process, integrating cultures assume even greater importance to the success of the post-acquisition process. It becomes a greater challenge for the managements involved.

The OC dimensions that are assumed in this study, which may affect and influence the post-acquisition process are: 1) leadership, 2) goal and value alignment, 3) communication styles, 4) structures and controls, 5) interpersonal relations, and 6) motivation staffing, and training. (See table 4.7)



Table 4.7: A classification of OC dimensions adopted in this study

OC dimension	Organisational manifestations	Key themes in literature	Key references
<b>Leadership orientation</b>	Management of responsibility, accountability; Long-term, futuristic; Appearance and dress	Autocratic/democratic/participative/abdicate oriented; Informal, formal, dynamic, flexible, rigid;	Sayles (1993); Hofstede (1994); and Harris (1998); and GLOBE (2002)
<b>Goal &amp; value alignment</b>	Mission, goals, Objectives; Norms; Priorities, schedules; Performance criteria Personal rules; Code of ethics	Long vs. short term; Customer oriented; Process oriented vs. results oriented; Customs and traditions; History of company	Hofstede (1994); and Harris (1998)
<b>Communication styles</b>	Formal, informal systems; External, internal systems; Specialized language Vocabularies, codes Signals	Centralised vs. decentralised system; Dynamic vs. static process; High vs. low context Timing of communication	Hall (1960); Hofstede (1994); and Harris (1998);
<b>Structure and controls</b>	Operational practices, projects; Products, services; Manufacturing, technology; R&D	Hierarchical, matrix, team oriented; Centralisation vs. decentralisation; Formalisation vs. informality; High vs. low standardisation; Tight vs. loose control 'Ad hockery' vs. planning	Deal and Kennedy (1982); Peters and Waterman (1982); Martin and Siehl (1983); Reynolds (1986); Hofstede (1994); and Harris (1998);
<b>Interpersonal relations</b>	Organisational networks; Client, customer base; Intra, inter-group; Subsidiary relations;	Pragmatic vs. normative Customer orientation; Power/conflict orientation Commitment orientation	Hofstede (1994); Harris (1998); and Brown (1998);



	Consultative, facilitative; Sensitive, skilful, interdependent	Employee oriented vs. job oriented
<b>Motivation, staffing &amp; training</b>	<p>Quality of work life and morale; Personal needs and motivations; Employee status and respect; Intrinsic, extrinsic rewards Compensation plans; Incentives, ownership; Recruitment &amp; selection Role &amp; task assignments; Education, training; Skills acquisition, learning</p>	<p>Parochial vs. professional Need for achievement/power/affiliation; Development and motivation of human capital</p> <p>O'Reilly, (1989); Hofstede (1994); Harris, (1998); and Detert et al. (2000)</p>

Source: Author



## **Leadership orientation**

Covin et al. (1997) suggest that the leadership style has an impact on merger satisfaction and suggest that leadership style should be a key consideration in planning a merger, not only for the early stages of a merger but is beneficial even long after the merger has taken place. This is supported by Schweiger and DeNisi's (1991) finding that negative effects of mergers do not seem to simply go away with time, but rather seem to get more serious.

The people most pivotally affected by the M&As process are the chief executive officers of the target firm (Levinson, 1972). Managers do not like to lose control of their firms despite the potentially large financial gains from being acquired (North, 2001). These people are often the most creative and innovative people in their company. The resultant loss of control and autonomy during M&As could be devastating to these individuals. The power and prestige of being in the top position is suddenly removed and replaced by a job that usually requires the CEO to perform mundane bureaucratic activities (Appelbaum et al., 2000). This drastic change has been known to create physical and emotional problems for the individuals involved and the stress level experienced by them is known to work through the chain of command and affect subordinates as well. Top executives' reactions to mergers can significantly affect the success of the merger process (Siehl, 1990).

When this becomes a serious problem in the post-acquisition process, either the top executives quit of their own free will or they are fired and replaced by the acquiring management. The new CEO will inevitably have different ways of operating, different ideas about accomplishing tasks, different expectations regarding how communication will flow through the organisation, and different leadership styles. These bring along a whole set of problems to the post-acquisition process.

Schein (1996) suggests that cultures cannot be changed arbitrarily but can evolve as the group eliminates the dysfunctional or undesirable elements of the current culture and builds on the strengths and virtues of the desired culture.



According to Fairholm and Fairholm (2000), the specific feature of an organisation's culture conditions what leaders do and how they do it and this requires trust and to encourage trust in the organisation. In mergers or acquisitions, existing or new leaders must be able to inspire employees' trust and confidence in the entire executive team and must earn the employees' respect and support. If successfully achieved, it will reduce employees' and managers' resistance to change, thereby simplifying the process of integrating diverse cultures (Shearer et al., 2001).

Drawing from organisational change literature, much information is available concerning the role of managers in major organisational change. For example, Kanter (1984) suggests that in order to build commitment to change, managers should allow employees to participate, provide a clear picture or vision of the future; share information; demonstrate commitment to change; tell people exactly what is expected of them; and offer positive reinforcement.

There are two popular approaches to the study of leadership, first is the power-influence approach and the second the behaviour approach. The power-influence approach attempts to explain leader effectiveness in terms of the source and amount of power available to leaders (French and Raven, 1959). The appropriate use of power is critical given the uncertainty level of employees during the merger process (Covin et al., 1997). For example, tactics for reducing resistance to change based on coercive power such as threats, manipulation or misinformation are likely to backfire. 'Referent power' such as placing individuals who are known, liked, and respected by employees in transition-related positions provided more merger satisfaction (French and Raven, 1968).

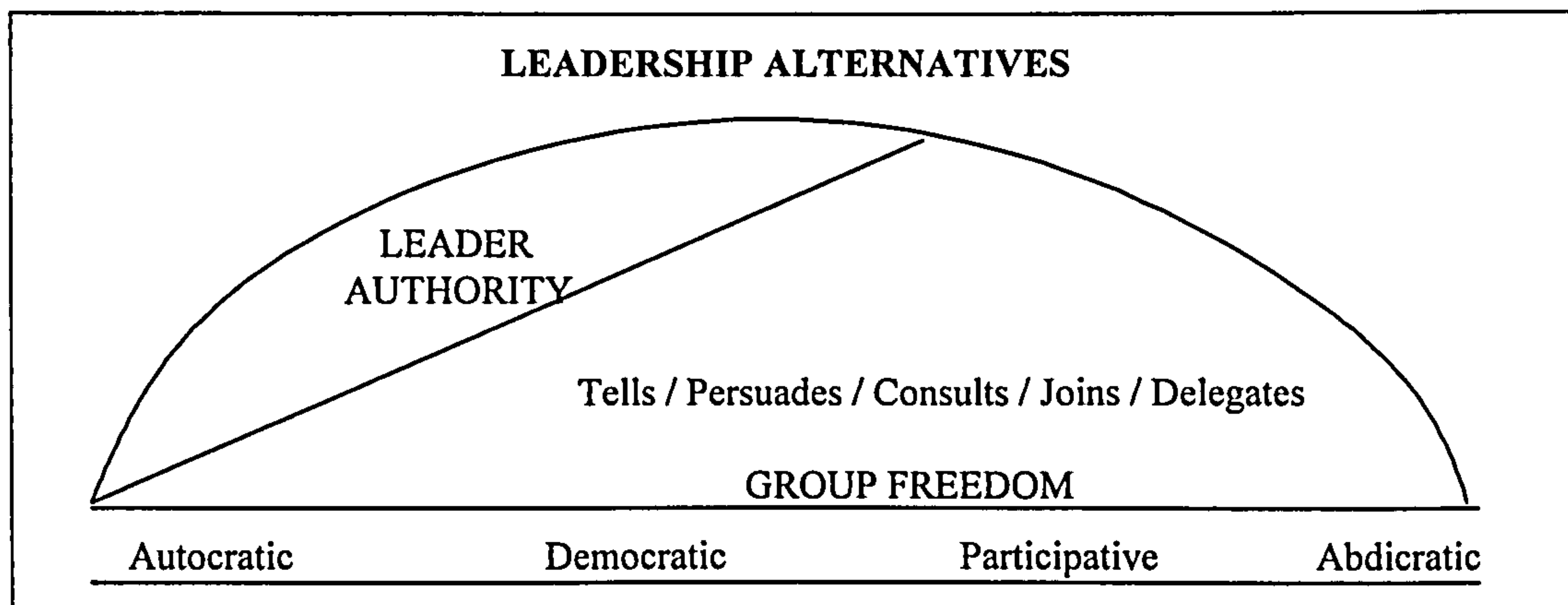
The behaviour approach emphasises what leaders do instead of their traits or source of power (Yukl, 1994). Palich and Hom (1992) propose that leader power enhancement and behavioural training of supervisors to increase the social power and influence of managers should be provided. But even with appropriate skills or necessary training, leaders may be distracted by worries about their own positions



and consumed by extra demands placed on them by the merger (Cartwright and Cooper (1993).

Sayles (1993) argues that the leadership style should be situational: that is appropriate to the time, place, culture, and the people involved. Thus, the leaders should operate within a continuum as described in Figure 4.5:

Figure 4.5: Leadership continuum of alternative styles



Source: Adapted from Sayles (1993)

The words in the centre of the continuum highlight the dominant style in each leadership posture, from telling to complete delegation. The diagonal line symbolizes the delicate balance between leader authority and group freedom. This balance shifts according to whether the authority is shared or centred in the ruling person or class. For example, an authoritarian leader dictates policy and tells the group members; whereas in a group, that has much freedom and authority is wholly shared, the leader abdicates total control in favour of total delegation (Sayles, 1993).

### Goal and value alignment

This dimension analyses the mission of the company, its goals and objectives. It also looks at the history of the company to provides insights regarding the reason for which the organisation was originally formed. Subsequently, the founders' or leaders' assumptions are reflected on how the group operates in the everyday situation.



## **Communication styles**

The literature implies that the communication dimension is the most important factor throughout the entire M&A process. Recent studies have turned attention to issues of communication rhetoric. Kleppestø (1998) has argued that it is the communicative aspects of identification processes that help us to understand the outcomes of organisational integration processes.

Similarly, Gertsen and Søderberg (1998) have emphasised the role of communication in these cultural identification processes. These studies show that communicated interpretations have a fundamental effect on behaviour of the organisational members and the consequent course of organisational change processes. It is the key to a successful integration of two clashing cultures (Balmer and Dinnie, 1999; and DeVogue and Spreier, 1999). Communication involves the “use of verbal and nonverbal signs and symbols to create understanding” (Vecchio and Appelbaum, 1995). Communicating the exact message (true communication) in M&As is difficult to achieve as it faces numerous obstacles.

The first obstacle is what is known as the “merger syndrome”. This concept was first documented by Mirvis (1985) and is characterised by increased centralisation, and decreased communication by management to employees. This lack of top-down communication churns the rumour mill as employees become preoccupied with themselves, their incomes, and their careers. Distrust is inevitable and becomes widespread unless the communication element is handled properly. One way of avoiding this is to be truthful, open and forthright in the communication process (Daniel, 1999; DeVoge and Spreier, 1999; and DeVoge and Shiraki, 2000).

The second obstacle to a good communication process in the M&As process is the clash of corporate cultures. This is otherwise understood by employees as changes introduced in the post-acquisition process. Organisations should never assume employees understand why the changes are taking place (Richardson and Denton, 1996; and Lewis, 1999). Changing corporate culture is more than simply posting slogans and posters or announcing a new and improved way of doing things



throughout the workplace. It is the actual implementation and adoption of the slogans as one's own (Sherer, 1994). These changes can be drastically different from those that are currently practiced (Pritchett and Pound, 1996).

Therefore, the same strategies adopted in organisational change situations can be applied to the M&A situation. Changes require not only good decisions to be made about how the change will affect profits, productivity, or quality, but also that these points are well-communicated (Richardson and Denton, 1996). Employees must see the proof that the changes work and are beneficial, otherwise they could cease subscribing to the new culture. Therefore, specific results, which management can clearly measure, are best used as proof that the changes are beneficial (Pritchett and Pound, 1996).

Communication and information flow can take a variety of forms: memos, e-mails, posters, videos, and face-to-face contact. Richardson and Denton (1996) suggest that executives do not understand the relationship between communication and media effectiveness. They state that media can be thought along a continuum from lean to rich, in which richness is the medium's ability to respond rapidly to feedback and to handle multiple forms of information at the same time with its personal touch. Lengel and Daft (1988) suggest that routine messages are best sent through lean forms of media such as memos and e-mails. However, as the message becomes increasingly non-routine, it is important to communicate through richer forms of media such as videos or face-to-face.

The third obstacle to true communication in M&As is timing. Timing is of essence in a good communication plan and should be developed before a merger or acquisition deal is finalised (Burke, 1987; Balmer and Dinne, 1999; and Daniel, 1999). Delays in communication result in employees feeling apprehensive and even hostile toward the M&As, making any subsequent communication process strained and difficult (Kelly, 1989). The empirical study by Leana and Feldman (1989) suggest that no significant changes in absenteeism, tardiness or productivity have been observed as a result of advance notification of a merger or acquisition to staff.



In dealing with the post-acquisition process, Burke (1987) suggests that management should conscientiously plan for a communications programme and implement transition and support mechanisms.

Miscommunication between two firms is likely to increase when they do not share similar corporate cultures. This problem is further enlarged in cross-border mergers and acquisitions when the acquirer and the acquired firm do not share the same first language. This is the fourth obstacle in the M&As communication process.

Language is an important mediator of culture (Adler et al., 1986). It helps to maintain the culture and serves as the vehicle for creation of shared knowledge structures. The terms and symbols of a language are value-laden and culturally tied (Hofstede, 1980). When such terms and symbols are used across culture, perceptions and communications may be confounded as misinterpretations occur (Smith and Bond, 1994).

Schermerhorn (1990) warns about the dangers of using English as a cross-cultural research medium with bilingual subjects. Even though it is easy to do so and the subject may appear to understand everything, he shows that the influence of culture may still confound research results. Because both parties are ostensibly speaking the same language, each assumes the other understands what they are saying. Quite possibly, neither of them will try adequately to interpret systematically the cultural contexts and meaning systems with which their respective English words and phrases are embedded (Smith and Bond, 1994) in the national culture. Therefore, the communication process in cross-border M&As might be more difficult to manage.

### **Structure and controls**

Organisational context, e.g. strategy, structure, and style can influence interpretation and response to strategic issues. Mintzberg (1979) defines organisation structure as “the sum total of the ways in which it divides its labour into distinct tasks and then achieves coordination between them”. According to Handy (1993), OC reflects



upon the structures of the firm. This impact may influence the levels of formalisation, centralisation, standardisation, control, and flexibility.

Centralisation implies that those in key positions, namely individuals and groups that have a significant impact on the activities, decisions, and programmes of the organisation. In contrast, decentralisation involves power dissemination where many individuals and work teams undertake responsibilities and make decisions about their own situations.

In organisational analysis, control as a dimension of OC is often connected with organisational structures. Schneider (1989) has argued that different cultural assumptions regarding the environment and the nature of relationships within the organisation result in different approaches – controlling vs. adapting – in formulating strategy.

As such, strict control is a characteristic of bureaucratic configurations. These organisations develop an OC based on a system of close hierarchical surveillance, evaluation and guidance of employees (Ouchi, 1980). The standards for control are well defined and flexibility is absent in decision-making activities. The concept of control is inherent to the OC development and maintenance. There is always an intention to achieve predictability and control behind OC creation (Smircich and Stubbart, 1985).

In MNE studies, the nationality of the management has a strong effect upon controls exercised over foreign subsidiaries (Eglehoff, 1984). In a study by Calori et al. (1994) on 75 international acquisitions in Europe by firms (from UK, France and USA), post-acquisition control mechanisms were examined to show that firms are influenced by their national administrative heritage.

The amount and degree of controls is related to the differing perceptions of the external environment, which is based on cultural values. Management efforts are likely to reflect the extent of the environment is perceived as uncertain and how far



business can control it (Schneider and De Meyer, 1991). According to Hofstede (1980), nations that score highly on uncertainty avoidance tend to have more controls and rules incorporated into the organisation to minimise the unknown (e.g. Germany).

National culture may affect organisation structure in terms of the degree of formalisation and centralisation of structures. Organisations that are “prospectors”, that have less formalised and less centralised structures and an ‘entrepreneurial style’ are more likely to interpret environmental events as ‘opportunities’ and to respond proactively (Meyer, 1982).

The design is the result of its external environment (national values), its size, its technology, its goals, and its leadership. Culture plays an important role in the merger strategy, as the fit between them is essential to organisational performance (Schein, 1985). In M&As, complexity, centralisation, and formalisation of structures will affect performance (Nahavandi and Malekzadeh, 1993). For example, undertaking M&As results in a combination of two organisations, which necessarily affect structures of the organisations involved. The reporting relationships change, spans of control are modified, and departmental functions are altered (Table 4.8).

Table 4.8: Structure on M&As

Determinants of Structure	Implications in M&As
Size	Large = more complex and formal to integrate Small = more responsive and personal to integration issues
Culture	Inseparable from structure Determines relationships among employees and managers
Strategy	A highly formalised, complex organisation has trouble being flexible and innovative
Leadership	A highly authoritarian, control-oriented executive is likely to centralise his or her organisation

Source: Derived from Nahavandi and Malekzadeh (1993)

Another aspect of structures is the level of formalisation. This refers to the tendency of organisations to develop formal mechanisms for all procedures and decision-making (Reynolds, 1986). A high degree of formalisation involves extensive and



detailed rules and procedures, and a variety of forms and written documents to justify all actions (Peters and Waterman, 1982). On the other hand, minimal formalisation focuses on informal interactions such as verbal discussions for the approval of major issues, and perhaps little discussion concerning minor issues or routine decisions. Peters and Waterman (1982) found that informality could be a major ingredient for success; they cite that a striking characteristic of excellent companies is the apparent absence of rigid chain of commands. Although, a chain of commands exists for important decisions, it is not used in day-to-day communication because information exchange informality raises the flexibility of the organisation. Informality is evident in the dress code of the employees and the physical configuration of facilities such as open doors.

Companies may differ in the way they respond to change in systems or procedures. Some organisations create elaborate plans according to anticipated future scenarios. This group of organisations demonstrates a high planning orientation. On the other hand, there are companies that appear to develop ad hoc responses to forthcoming changes. Parasuraman and Deshpande (1986) maintain that the concept of OC has a lot to offer if it is strategically integrated into action responses to environmental change. The authors explored the influence of OC on strategic planning. They proposed that the interaction between OC and strategy is intriguing and concluded that unless compatibility exists between these two elements, strategy implementation is threatened.

Several themes emerge from the orientation to change and uncertainty. Firstly, there are ideas about risk taking and uncertainty avoidance. Secondly, there are ideas associated with the stance of organisation towards change and innovation.

The ability of organisations to assume risks is attributed much on its OC characteristic and plays a vital role for its survival in turbulent environments (Hofstede, 1992). Such ideas are encompassed in the OC dimension entitled risk aversion vs. risk acceptance. The one extreme of this dimension is a sense of conservatism in organisations while the other is the predisposition of the firm to



confront challenges (Reynolds, 1986). This dimension resembles that of uncertainty avoidance that Hofstede et al (1990) proposed to describe the posture of organisations towards change.

Hurley and Hult (1998) propose that innovativeness is a feature of OC that manifests the organisation's orientation towards innovation. Similarly, Deshpande et al (1993) identified a linkage between OC and innovativeness in Japanese firms and suggest that the orientation of organisations towards change is embedded on OC elements such as artefacts and values. Damanpour and Gopalakrishnan (1998) argued that organisational units are more likely to champion innovation adoption if people that have a positive attitude towards risk and new ideas enthuse them.

### **Interpersonal relations**

The themes that make up this dimension consist of how a firm treats its employees, clients, and other stakeholders. Hofstede et al. (1990) proposed a dimension, employee vs. job orientation, meaning the concern for people (employee orientation) to that of getting the job done (job orientation). This dimension has also been labelled as task vs. social focus (Reynolds, 1986) that distinguishes organisations that appreciate the need of the human capital from those that view workers as a means to increase productivity.

This dimension also entails the theme of regarding interpersonal trust and conflict in organisations. According to Brown (1998), organisational cultures tend to promote politics as a way of life for its members. As such, there is a tendency for groups or individuals to manipulate situations for their own personal advantage. Therefore, in an M&A situation, there might be strong and cohesive groups within the acquired company, which may work together in rivalry against the acquirer.

Another theme in this dimension related to an M&A situation is organisational commitment. This represents the psychological attachment towards the employing organisation. In some organisations, the employees consider themselves committed to the organisation and strongly believe in their long-term future in the organisation



(Brown, 1998). They strive to contribute to the organisational success. On the other hand, there are employees who do not seem to demonstrate a commitment orientation towards the organisation and tend to focus instead on their personal career paths.

A fundamental theme in this dimension considers the nature of the relationship between an organisation and its external environment (Schein, 1985). According to Scholz (1987) some organisations tend to assume that success is solely based on processes and people tend to pay little attention to the physical work environment. They operate like closed-systems with internally induced organisational cultures. In contrast, other organisations tend to concentrate on elements of the external environment such as customers and competitors (Denison and Mishra, 1995). Such firms manifest a clear external focus, and are concerned with the task to satisfy external stakeholders and pay attention to competition and environmental factors. Hofstede et al (1990) refer to this dimension as the open vs. closed system.

### **Motivation, staffing and training**

Motivation deals such as incentives and rewards are offered to organisational participants to make them act towards desired performance (Detert et al., 2000). Motivation forms a major dimension of OC in the organisation theory literature (O'Reilly, 1989; Lytle et al., 1995; and Detert et al., 2000). OC is defined as the collective human action, which forms the various forces that affect motivation (Kashima, 1997).

According to Schwartz (1997), OC values and norms are foundations of motivation and pertain to broad goals that render attractive alternatives for action, and influence the initiation and direction of behaviour. Similarly, Berger and Luckmann (1971) suggest that OC is determined by the socio-cultural fabric of the firm and affects the development and motivation of the human capital in the organisation (O'Reilly, 1989). It is assumed that if training (e.g. cultural sensitivity) is provided to managers in the post-acquisition process, it would be easier to influence attitudes and behaviours adopted during the process (Harper and Cormeraie, 1995).



#### 4.4 CONCLUSIONS

To sum up, this chapter suggests an alternative way of managing the post-acquisition process and how the multi-dimensional culture construct influences this process. The chapter was divided into two sections. The first section concentrated on the overall conceptual framework adopted in this research and the second section elaborated on the multi-dimensional cultural construct.

The conceptual framework is based on three distinct schools of thoughts, the strategic management school, the process school and the organisational behaviour school. However, the researcher posits that these three schools are interdependent and affect the post-acquisition success. The researcher perceives that NC and OC as a multi-dimensional construct that interacts between levels. Ultimately, in this study the researcher implies that NC and OC are dynamic constructs in post-acquisition management and success. The unique contributions of the conceptual framework and its construct to the literature are:

- Framework draws from the three schools of thought, allowing a cross-disciplinary study on the post-acquisition process;
- View the post-acquisition process as a continuous management wheel between the acquirer and the acquired firm, taking into account the type of M&A and its ensuing post-acquisition changes, timing, and communication sub-phases;
- Incorporate the interactions of NC and OC concepts into the management wheel (i.e. might be able to identify which interactions have the strongest influences on the process, thereby, enabling better planning and execution practices in future M&As);
- Attempts to monitor the cultural influences on the post-acquisition behaviour over a longer period (2 years is the common framework in the current literature) to provide a deeper insight into the process.

The next chapter proposes the research method adopted to test the conceptual framework and its construct developed in this chapter.



## CHAPTER 5

### RESEARCH DESIGN AND METHODOLOGY

#### *Chapter Objectives:*

- To discuss the research design and methodology adopted in this thesis
- To highlight the conceptual ideas discussed in the preceding chapters and outline the process to be followed in the practical operationalisation of the research
- To discuss the rationale of the chosen method and with reference to previous research
- To discuss the analysis methods adopted to dissect and understand the data collected



## 5.0 INTRODUCTION

In the research process, once the problem has been identified (in this case in Chapter 4) the next stage of the process is to design the research to answer the research objectives with a structure or framework to solve the specific problem.

There are numerous ways to conduct a research study including surveys, case studies, experiments and the analysis of archival records. As asserted by Yin (1987, 1994), the appropriateness of each research strategy depends on the following three conditions:

- The type of research questions (i.e. who, what, where, when, how and why);
- The control a researcher has over the actual events under study; and
- The time period of the research focus (contemporary vs. historical phenomenon)

The purpose of this chapter is to describe the chosen methods used to fulfill the research objectives and test the theoretical M&A framework and the multi-dimensional cultural interface discussed in the earlier chapters. This study looks at one American MNE in the automotive supplier industry and its four acquisitions into Europe during the 1990s. The data collection process was carried out between August 2001 and September 2002; and the author visited both the acquirer's and the acquired firms' sites to conduct the interviews and survey distribution personally. The purpose of this chapter is to justify the methodological choices and describe the data collection and analysis process.

This chapter is divided into five sections. The first section consists of an overview of the type of methods adopted in past acquisition studies and intercultural studies. This is followed by the justification adopting a mixed methodology as a research strategy and a review of the appropriateness of in-depth interviews as the main data collection method in the second section. The third section describes the research design that includes the research questions, case study selection criteria and the data collection process. The fourth section looks at the analysis methods adopted for the



case studies and finally the fifth section presents the structure of the case presentation in the analysis chapters (Chapters 6-10).

## 5.1 METHODS USED IN ACQUISITION AND CULTURAL STUDIES

There are similarities in the type of methods adopted in acquisition studies and cross-cultural studies. A major similarity is the polarity of approaches between 1) in-depth case studies and 2) large-scale surveys. Each type of method adopted various reasoning behind it.

Acquisition studies that assess the impact of mergers on employees tend to adopt the *in-depth case study* approach. For example, Bouno and Bowditch (1989) on culture; Mirvis and Marks (1992) examined one merger in detail and clash; and Larsson's (1990) comparison of two cases on integration. Conversely, performance studies in the acquisition literature tend to adopt cross-sectional surveys involving large numbers of acquisitions such as Frank and Harris's (1989) and Jarrell and Poulsen (1989).

The *cross-sectional survey* method is most appropriate for assessing problematic relationships of certain features over the widest possible population of observations and is incapable of dealing with complex and conjectural casual agreements (Ragin, 1989:69). This shortcoming is evident in the context of acquisitions where the complexity of the phenomena has defied meaningful explanation at aggregate level. For instance, the debate over whether relatedness of acquisitions had a positive effect on performance is still on going despite many substantial surveys (Angwin, 1998). In addition, the survey approach is gaining popularity in the cultural studies literature. For example, the latest GLOBE study (2002) adopted a worldwide team survey research to study a few clusters of countries.

The *in-depth case study* method promises to overcome the limitations of cross-sectional surveys, as they are well suited for identifying invariant patterns in small sets of cases. This method is sensitive to human agency and social processes in general (the historical process). It is able to capture richness of an acquisition. The



limitation of this method is that it is highly specific in nature and lacks generalisability (Yin, 1987).

In response to this criticism, there appears to be a move towards the use of a greater number of cases through team research. For example, Haspeslagh and Jemison (1991) used seven cases in their research. However, compromises are made when there is team research involving several authors. The sacrifice tends to be the longitudinal comprehensiveness of research as a series of less demanding cross-sectional approaches over time becomes more evident. Haspeslagh and Jemison (1991) is an example of longitudinal research by different authors being combined and case research being conducted by cross-sectional interviewing at different times. Another sacrifice in team research is that it tends to concentrate on a fewer number of subjects within a case, thus reducing the richness of the study.

In recent years, there has been an emergence of the mixed methods or hybrid methods in acquisition and cultural studies. This approach is gaining increasing appreciation to ease the debate of solely adopting either qualitative or quantitative research methods. Cultural-acquisition studies have adopted this mixed approach. For example, Cartwright and Cooper (1992) adopted extensive data collection including questionnaires, interviews and observations to study the cultural fit of a number of companies involved in M&As. Another example is Forstmann (1994) who conducted an exploratory case study on value orientation and action in M&As integration (based on questionnaire responses, interviews and observations during visits to the company) of a German chemical company that acquired four companies in France, Belgium, Canada and the U.S.

In order to understand the emergence and benefits of the mixed method approach, understanding the background of the quantitative-qualitative “war” or debate is necessary. This is discussed next.



## 5.2 MIXED METHOD

The term *mixed methods* typically refers to both data collection techniques and analyses given that the type of data collected is intertwined with the type of analysis that is used (Tashakkori and Teddlie, 1998). In order to understand the emergence of this method in social and behavioural research, it is necessary to highlight the ‘war’ of methods that has raged for many decades (Datta, 1994; House 1994; and Rossi, 1994).

### 5.2.1 Historical debate or ‘war’

The ‘war’ of the two models or methods is known alternately as the positivist/empiricist approach or the constructivist/phenomenological orientation (Cherryholmes, 1992; and Guba & Lincoln, 1994). The positivist paradigm underlies what are called quantitative methods while the constructivist paradigm underlies the use of qualitative methods (Lincoln & Guba 1985; Howe 1988; and Guba & Lincoln, 1994).

Positivism has origins dating back to nineteenth-century French philosopher August Comte (Tashakkori and Teddlie, 1998). It is a scientific method based solely on observable facts and rejects speculation about ‘ultimate origins’. In this approach, the observer is independent and inquiry is value free. The researcher looks for causality and fundamental laws and reduces phenomena to the simplest elements to formulate hypotheses and test them.

Constructivism on the other hand takes a view that the world in reality is not objective and exterior, but is socially constructed and given meaning of power (Husserl, 1946; and Thorpe & Lowe, 1991). The researcher does not gather facts but appreciates the different constructions and meanings that people associate with their experience. The differences between positivism and constructivism are summarised in Table 5.1. Given these contrasts, it was inevitable that a “war broke out” between individuals of what Smith (1994) has called the “paradigm purity” of their own position.



Table 5.1: “Axioms” of both paradigms

Axioms	Positivism paradigm	Constructivism paradigm
Ontology (nature of reality)	Single	Multiple
Epistemology (the relationship of the knower to the known)	Independent	Inseparable
Axiology (role of values in inquiry)	Value-free	Value-bound
Generalisations	Time-and-context-free generalizations are possible	Not possible
Causal linkages	Causes are precedent to or simultaneous with effects	Impossible to distinguish causes from effects
Logic	Deductive	Inductive

Source: Lincoln and Guba (1985); and Tashakkori and Teddlie, 1998

However, many researchers believe that that the differences between the two paradigms have been exaggerated and that the schism is not as wide as portrayed by the “purists” (House, 1994; Datta, 1994). This third paradigm is known as pragmatism (Howe, 1988; and Brewer and Hunter, 1989). The major tenet in this paradigm is that quantitative and qualitative methods are compatible and therefore, researchers should use both of them in their research. Reichardt and Rallis (1994) have gone a step further to argue that there are enough similarities in the fundamental values between quantitative and qualitative methods to “form an enduring partnership” (p.85). These values include belief in the value-ladenness of inquiry, belief in the theory-ladenness of facts, belief that reality is multiple and constructed, belief in the fallibility of knowledge, and belief in the under determination of theory by fact. This paradigm allows for the use of mixed methods in social and behavioural research.

5.2.2 Rationale for dominant-less-dominant design

The objectives of this research as discussed in Chapters 1 and 4 are exploratory in nature with the intention to capture the perceptions of actors and analyse the unfolding of cultural events in the post-acquisition process from both the acquirer’s and acquired firm’s points of view. The methodology takes a similar approach to Forstmann’s (1994) study where a combination of qualitative and quantitative methods was adopted to study one company’s acquisitions into different countries.



In relation to this research, the author adopted a dominant-less dominant design (Morse, 1991; Creswell, 1995) simultaneously in her field visits to the acquired sites and headquarters. Creswell concluded that the advantage of such an approach is that it “presents a consistent paradigm picture...and still gathers limited information to probe in detail one aspect of the study” (p.177).

The dominant instrument for this research is the case study approach. The rationale is that a multiple culture perspective with different type of cultures, especially national and organisational cultures, intervening at different level of analysis is under study. A dominant survey approach to study this interaction of cultures is not possible through representative samples and close-end questionnaires because they are not adequate instruments for capturing multiple influences and assessing how they combine (Boyacigiller et al, 1996). Therefore, the survey approach was the less-dominant instrument in this study. During the field visits, the researcher simultaneously distributed a short survey to the employees randomly selected to understand the national culture dimensions in each country and to complement their responses with the cultural issues brought up during the interviews.

Within this dominant-less-dominant design a multilevel research approach, common in both the quantitative and the qualitative traditions, was incorporated into this research design. These are studies in which data from more than one level of organisations or groups are used to achieve more comprehensive inferences regarding behaviours and or events (Takshakkori and Teddlie, 1998). As argued in Takshakkori and Teddlie (1998), it is possible to conduct multi-level research in which data are collected qualitatively at one level and quantitatively at another simultaneously. In this study, in order to gain a more complete picture of the cultural interactions of national and organisational dimensions and their impact on the post-acquisition process, interviews were conducted with the managements in both the acquiring and the acquired firms. Employees of supervisory levels were also interviewed and a survey was simultaneously distributed to them and other employees at the sites.



### **5.2.3 Qualitative research: Case study as the dominant strategy**

Case studies are increasingly being used as a research tool (Perry and Kraemer, 1986; and Hamiel, 1992,). The case study contributes uniquely to our knowledge of individual, organisational, social and political phenomena (Yin, 1994) and is a common research strategy in psychology, sociology, political science, business, social work and planning (Yin, 1983).

The choice of adopting the case study is that it allows an investigation to retain the holistic and meaningful characteristics of real-life events such as organisational and managerial processes – which this thesis is about. Furthermore, the unique strength of a case study is its ability to deal with a full variety of evidence such as documents, artefacts, interviews, and observations.

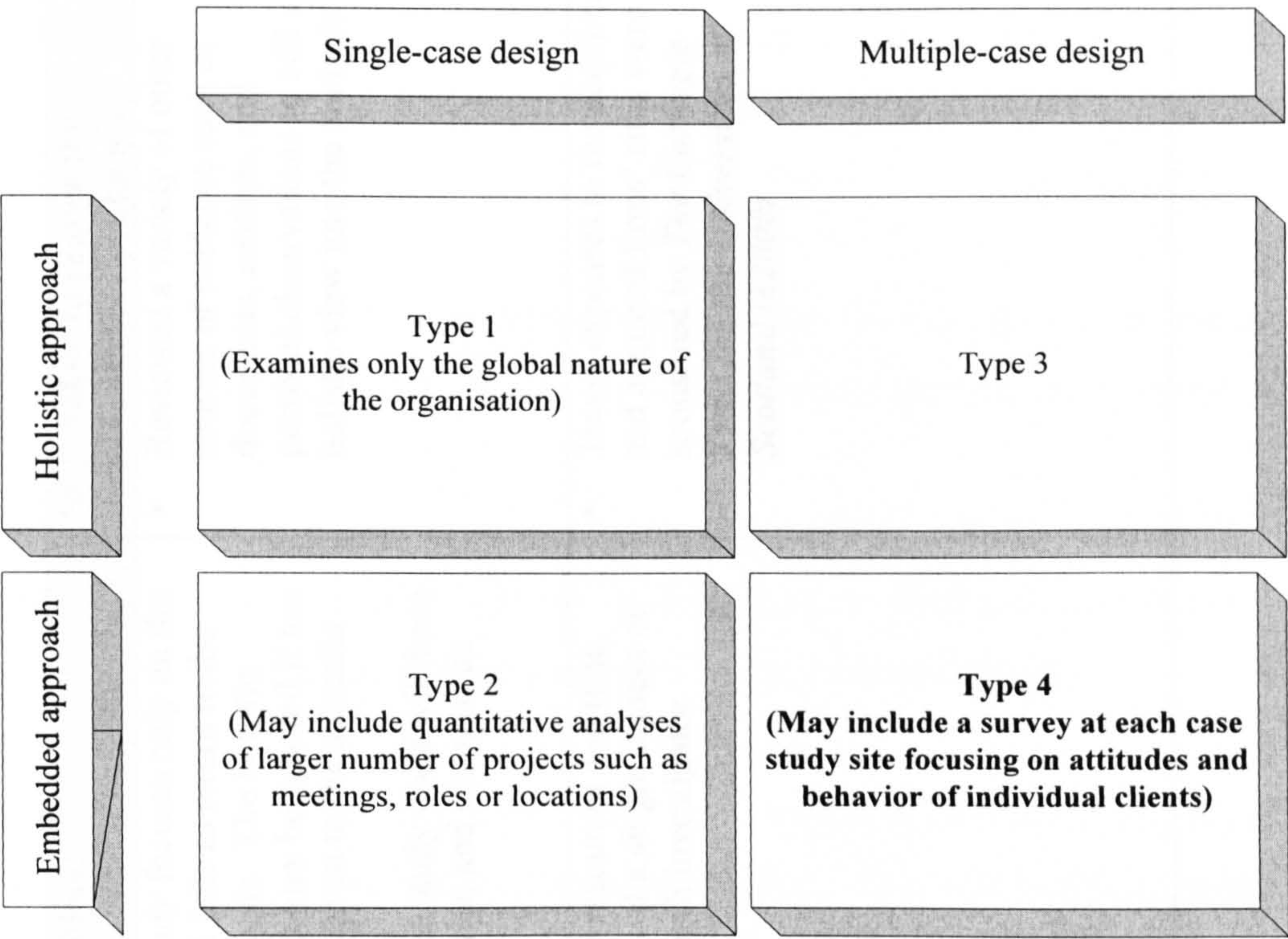
The research questions defined in this thesis were exploratory in nature and asked ‘how’ and ‘why’. The case study approach is the preferred method for such questions to deal with operational links that are traced over time, rather than mere frequencies or incidence (as in a survey).

Furthermore, case studies are used when the boundaries between a phenomenon and context are not clearly evident and when multiple sources of evidence are possible (Davis, 1976; Miles, 1979; Yin, 1987; and Smith, 1989). In other words, a case study is a detailed examination of an event or series of related events that the analyst believes reflects the operation of some identified phenomena. It is appropriate when the use of specific examples (i.e. individual cases) can aid understanding of a contemporary phenomenon better than findings based on analysis of aggregate data (Miles, 1979; Simon and Burstein, 1985; and Yin, 1987).

According to Yin (1994), a case study can be designed according to the type and the extent of information the researcher requires: holistic, embedded, single-case or multiple-case. As a result there are four types of case study design as seen in Figure 5.1.



Figure 5.1: Types of case study design



Source: Adapted from Yin (1994)

The type 4: multiple-case design with embedded information (Figure 5.1) was chosen for this research because of its many advantages. The embedded multiple-case study allows the researcher to address the sensitive nature of the topic understudy. It is also considered to be a more compelling design and therefore robust than a single case study. Most importantly, this design facilitates the development of a rich theoretical framework of managing the cultural interactions in the post-acquisition process (Table 5.2).



Table 5.2: Advantages and disadvantages of chosen case study design

Case Study Designs	Advantages	Disadvantages / Problems	Steps taken to reduce the disadvantages / problems
<b>Embedded</b>	<ul style="list-style-type: none"><li>▪ Increased sensitivity to changing nature of the case study with the identification of sub-units that allows focus on the case inquiry</li><li>▪ Add significant opportunities for extensive analysis, enhancing the insights into the case</li></ul>	<ul style="list-style-type: none"><li>▪ When the case study focuses only on the sub-unit level and fails to return to the larger unit of analysis. The holistic aspects of the case may be ignored if too much attention is given to the subunits</li><li>▪ As a result the case study itself will have shifted its orientation and changed its nature</li></ul>	<ul style="list-style-type: none"><li>▪ Reviewed a variety of other sources of evidence such as documents, artifacts, and personal observations to add a holistic view into the analysis</li></ul>
<b>Multiple-Case</b>	<ul style="list-style-type: none"><li>▪ The evidence from multiple cases is often considered more compelling, and therefore regarded as more robust (Herriott and Firestone, 1983)</li><li>▪ Replication logic: each case has to be carefully selected to (a) predict similar results [literal replication]; (b) produces contrasting results but for predictable reasons [theoretical replication]</li><li>▪ Development of a rich theoretical framework</li></ul>	<ul style="list-style-type: none"><li>▪ Require extensive resources and time beyond the means of a single student or independent research investigator</li></ul>	<ul style="list-style-type: none"><li>▪ Travel expenses to the acquirer's and acquired firms' sites were sponsored by <i>The Carnegie Trust for the Universities of Scotland (£2000)</i></li></ul>

Source: Derived from works of Yin (1994)



### **Techniques to improve the quality of case studies**

The benefits of case studies over other research strategies can be maximised if a researcher applies three basic “quality control” techniques while conducting case studies (Table 5.3).

First, is to collect data from multiple sources so that the findings can be based on the convergence of information from various different sources, also known as the triangulation of data.

Second, formal collection of evidence distinct from the final case study report should be made so that other investigators can review the evidence directly.

Third, links (i.e. chain of evidence) of the questions, the data collected and the conclusions drawn should be explicitly established. This will enable a reader of the case study report to follow the researcher’s initial research questions to the conclusions or vice versa.

#### **5.2.4 Quantitative research: Survey as the complementary strategy**

Cross-cultural research can provide helpful insights to executives facing global challenges. However, to be useful, cross-cultural research has to be based on sound theory and large-scale samples of a large number of cultures and Hofstede’s (1980) seminal work was truly path breaking in this regard. Although his findings have produced valuable lessons for executives grappling with understanding and measuring national cultures, there have been many criticisms on Hofstede’s work as discussed in Chapter 3. Several other authors have also produced useful, large sample, cross-cultural findings (Schwartz and Bilsky, 1987 and 1990; and Trompenaars and Hampden-Turner, 1998).



Table 5.3: Validity and reliability tests for case study

Test	Tactics	Stage of research
<i>Construct validity</i>	<ul style="list-style-type: none"><li>▪ Use multiple sources of evidence</li><li>▪ Establish chain of evidence</li><li>▪ Have key informants review draft case study</li></ul>	<ul style="list-style-type: none"><li>▪ Data collection</li><li>▪ Data collection</li><li>▪ Thesis write-up</li></ul>
<i>Internal validity</i>	<ul style="list-style-type: none"><li>▪ Conduct pattern matching</li><li>▪ Make inferences</li><li>▪ Do time-series analysis</li></ul>	<ul style="list-style-type: none"><li>▪ Data analysis</li><li>▪ Data analysis</li><li>▪ Data analysis</li></ul>
<i>External validity</i>	<ul style="list-style-type: none"><li>▪ Use replication logic in multiple case studies</li></ul>	<ul style="list-style-type: none"><li>▪ Research design</li></ul>
<i>Reliability</i>	<ul style="list-style-type: none"><li>▪ Use case study protocol</li><li>▪ Develop case study database</li></ul>	<ul style="list-style-type: none"><li>▪ Data collection</li><li>▪ Data collection</li></ul>
<p><u>Notes:</u></p> <p><i>Construct validity:</i> establishing correct operational measures for the concepts being studied (i.e. to fulfil research objectives)</p> <p><i>Internal validity:</i> ascertaining the relationships of variables, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships (i.e. applicable to explanatory studies only)</p> <p><i>External validity:</i> identifying the domain to which a study’s findings can be generalised</p> <p><i>Reliability:</i> demonstrating that the operations of a study (e.g. data collection procedures and analysis techniques) can be repeated and produce the same results</p>		

Source: Yin (1987, p.36), adopted with some modifications



The survey questions in this research were drawn mainly from Hofstede (1980) but incorporated other landmark cultural studies such as Hall (1960); Schwartz and Bilsky (1987); and Trompenaars (1994). A short survey consisted of two main types of questions addressing: 1) the national values such as personal attitudes to work and family life, and 2) the organisational culture values as derived from the works of various authors. The survey was mainly designed to address the range of nationality-specific dimensions of America, Germany, France and Sweden that is difficult to capture through interviews and personal observations only. Refer to Appendix 1 for the full questionnaire.

### **5.3 RESEARCH DESIGN**

In summary, the reasons in favour of the use of case studies are the diversity of applications and flexibility of case studies methods that a researcher can use to generate insightful data. It is particularly useful when a researcher wants to investigate a contemporary phenomenon within its real-life context. They are also applicable when the parameters between the former and the latter are not evident.

For case studies, a research design should include components such as research questions, research propositions, the units of analysis to be investigated, any logical links between data to be collected, as well as criteria for interpreting the findings (Yin, 1994).

Table 5.4 summarises the research design for this thesis. It states the purpose and justifies the choices the current author has made in relation to selection of data collection methods.



Table 5.4: Summary of research design

Dominant-less-dominant design	Multiple sources of data collection (August 2001 to September 2002)		Purpose of each data collection source	Justification for adoption
Dominant design: <i>Case study</i> (Of acquired subsidiaries)	In-depth interviews of remaining employees that were involved in the post-acquisition process	Interviewed employees from both the: <ul style="list-style-type: none"><li>▪ Acquirer</li><li>▪ Acquired subsidiaries</li></ul> Across different departments	To obtain ‘stories’ of the post-acquisition process from the employees that were involved in the process	A useful way of obtaining large amounts of data quickly (Marshall & Rossman, 1995)
	Personal observations during site visits	Took place at all sites visited. Observations were recorded down in a observation summary form for each day spent at the site	To observe and record the cultural behaviours and events of the manager-employee relationship in each country	Combined with interviews allow the researcher to understand the meaning people hold for their everyday activities (Marshall & Rossman, 1995)
	Archival records and documentation of the company and the M&A	Annual company reports, company brochures for customers,	To allow the researcher to crosscheck on factors such as acquisition performance, company histories, product-lines, and customer bases	Improved the quality of data collected from interviews
	Self-administered questionnaire (Target 250 respondents for five site visits)	Distributed to acquirer and acquired sites  Questionnaire was translated in German and French by fellow colleagues that were native speakers in the respective languages	To measure the cultural attitudes of each country visited	Allowed the researcher to look for instances of agreement and disagreement between the qualitative interviews and the quantitative data sources in regards to the differing national cultures involved in this research study

Source: Author



### **5.3.1 Research questions**

The case study strategy is most appropriate as the dominant strategy because the research questions in this study are mainly “how” and “why” questions (seen in chapter 4, Table 4.1).

### **5.3.2 Research proposition**

The purpose of selecting the case study method was to capture the perceptions of actors and analyse the unfolding of events in the post-acquisition process from the acquirer’s and acquired firm’s points of view. The research was designed to analyse the interactions of national and organisational cultures during the post-acquisition process and to understand how these were managed in the three different countries.

The research is exploratory in nature investigating the case of one American acquiring company in the automotive supplier industry, which acquired four companies in Germany, France and Sweden during the 1990s.

### **5.3.3 Unit of analysis**

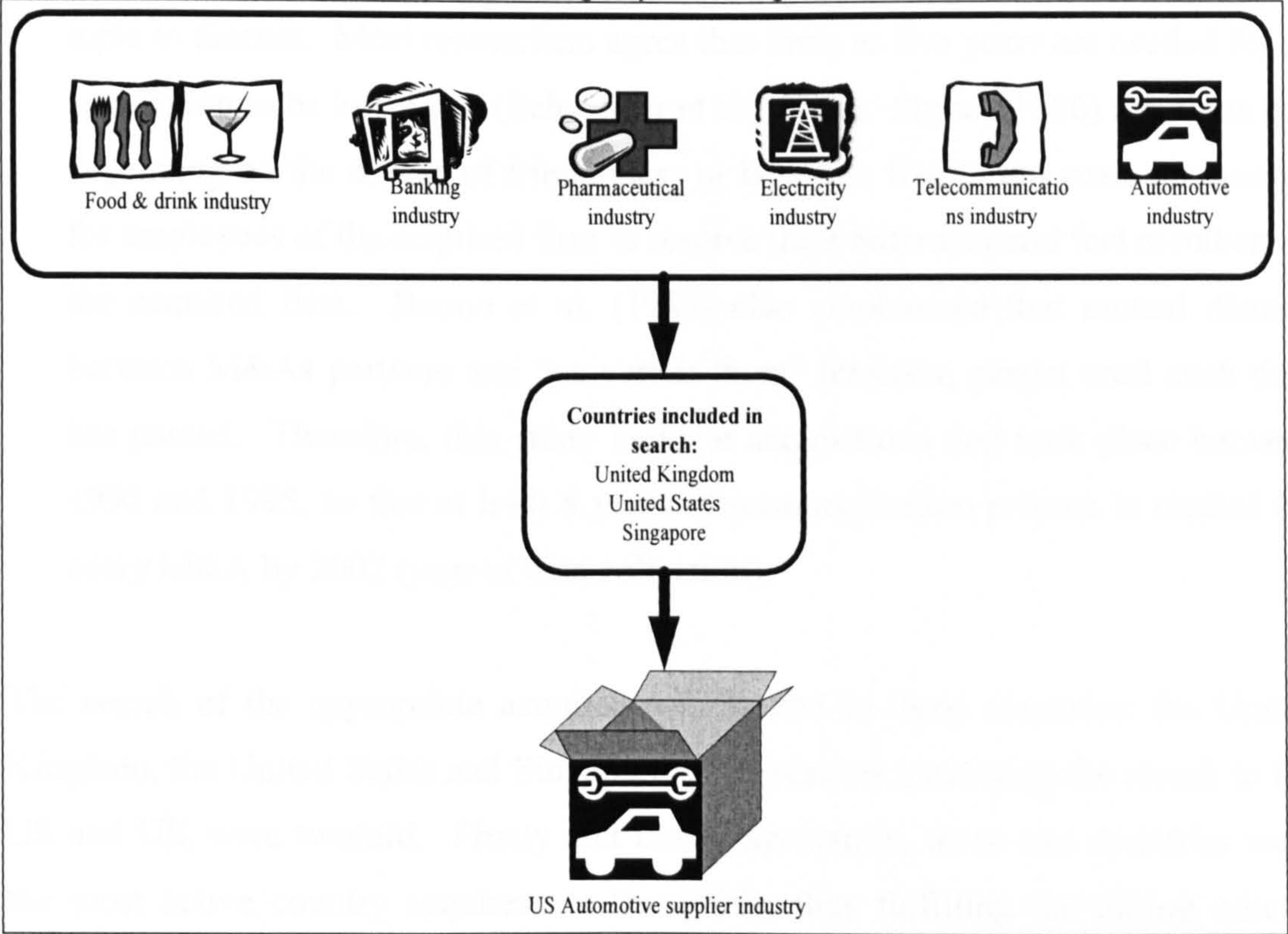
This is related to the fundamental problem of defining what the ‘case’ is. It is related to the way the initial research questions have been defined. In this thesis, the unit of analysis is the management of cultural interactions in cross-border M&As during the post-acquisition process.

### **5.3.4 Company case selection procedure**

The selection of company cases was crucial in this research as it greatly affected the quality of cultural interactions described in the findings. The industry and case selection resulted after an extensive selection procedure drawn from a sample of MNEs in six industry sectors and three countries. These sectors (seen in Figure 5.2) were selected because they were actively involved in cross-border M&As in the 1990s as discussed in Chapter 1. The driving forces for the high numbers and values for M&As in the 1990s were due to changing external environmental forces such as deregulation, the pending single market in Europe, technological advances, globalisation and increasing competition.



Figure 5.2: Industry, country and company search process



Source: Author

The criteria the researcher used when selecting the companies were made under these general headings:

- *Size*: among the “Top 100 listed companies” in their respective countries by sales turnover as at end of 2000;
- *Degree of cultural diversity*: have acquired or are located in any of the six regions identified – North America; Latin America; Europe; Asia-Pacific; Africa & Middle East – the more regions the companies acquired into the greater the cultural diversity to study;
- *Distribution of turnover*: higher importance is placed on companies that have equal to higher turnover overseas;
- *Distribution of profits*: higher importance is placed on companies that have equal to higher profits overseas
- *Experience in cross-border M&As*: the longer the experience in acquiring overseas or locally, the higher the score; and



- *Timing.* The period in which one chooses to study an acquisition is an important topic to discuss. Most researchers agree that three to five years are needed for an acquisition to be integrated (Schweiger et al., 1993). Stybel (1986) mentions that depending on the degree of friendliness or hostility, five to ten years are needed for employees of the acquired firm to resolve their bitterness and feel members of the acquired firm. Buono et al. (1985) also emphasised that mutual distrust between M&As partners and “us versus them” tensions, persist until such time has passed. Therefore, this study looks at acquisitions that took place between 1990 and 1995, so that at least 8 years of post-acquisition process is studied for every M&A by 2002 (year of data collection).

The search of the appropriate acquirer was limited to three countries: the United Kingdom, the United States and Singapore. The reasons narrowing the search to the US and UK were twofold. Firstly and most importantly, these two countries were the most active country acquirers in the 1990s, thus fulfilling the timing criteria mentioned above. Secondly, the acquirers in these countries tend to acquire in a variety of countries and hence provide a base of cross-cultural experience in M&As.

The third country, Singapore, was looked at as a fallback plan in case no access was gained from the acquirers contacted in the UK and the US. Singapore was chosen as it can be considered as an upcoming active acquirer in the Asia-Pacific because the government encourages the local companies to acquire in neighbouring countries to remain competitive. In addition, since the liberalisation of the utilities industry in the late 1990s, foreign ownership through M&As has been taking place.

Based on the above criteria, the researcher assigned the degree of importance of each to the selection of the right company for this study and justified this in Table 5.5. The assignment of the degree of importance was based on the research objectives. The degree of importance ranged from zero to ten, zero representing the least degree of importance and ten for the most.



Table 5.5: Company selection criteria

Criteria	Degree of importance for each criteria	Justification for assignment for the degree of importance
<b>Size of company: (SC)</b> <ul style="list-style-type: none"><li>▪ More than 5,000 employees</li><li>▪ Between 500 and 5,000 employees</li></ul>	6  2	<p>Because it is possible that the relative size of a firm can confound an assessment of impact of FDI or M&amp;As on its performance, only companies that were in the “Fortune Top 500 companies” category as at 2000 were included.</p> <p>The intention was to study large firms, hence a higher point criteria is assigned to firms with more than 5,000 employees.</p>
<b>Degree of cultural diversity: (DCD)</b> <ul style="list-style-type: none"><li>▪ Acquired or merged in North America</li><li>▪ Acquired or merged in Latin America</li><li>▪ Acquired or merged in Europe</li><li>▪ Acquired or merged in Asia-Pacific</li><li>▪ Acquired or merged in Africa &amp; Middle East</li></ul>	8 8 10 10 10	<p>One of the objectives of this research was to develop and test a multi-dimensional cultural framework; hence, it was of crucial importance for firms to score highly in this category. They scored higher if they acquired overseas as this provided the necessary base for cross-border research studies.</p> <p>The five regions were based on the UNCTAD World Investment Report’s categorisation of cross-border M&amp;As.</p> <p>It was assumed that British, American and Singaporean firms seek to acquire foreign technology and marketing intelligence through M&amp;As (among other motives). It follows that their M&amp;As destinations have to include at least one advanced industrial nation (i.e. European Union country, North America, and Japan) and at the same time, satisfy the working definition of an MNE. This assisted in measuring the degree of cultural diversity the company has experienced in M&amp;As.</p>



<b>Distribution of turnover in the respective industries (%): (DT)</b> <ul style="list-style-type: none"> <li>▪ Domestic country</li> <li>▪ Overseas</li> </ul>	- 10	Aim of research was to investigate MNEs. Hence, a 10 point assignment for overseas turnover and profit distribution.
<b>Distribution of profits in respective industries (%): (DP)</b> <ul style="list-style-type: none"> <li>▪ Domestic country</li> <li>▪ Overseas</li> </ul>	- 10	<p>The choice to look at MNEs is to select a case company that operate on a worldwide basis (Robock and Simmons, 1985; and Bartlett and Ghoshal, 1989) to allow the current author to provide a comparison with findings of previous research. Therefore, the selected company's overseas operations had to be significant.</p> <p>The firm must have a direct investment in at least three of the five identified regions and turnover and profits were used as variables to justify the degree of overseas business.</p>
<b>Experienced in cross-border M&amp;As: (ECBMA)</b> <ul style="list-style-type: none"> <li>▪ More than 15 years</li> <li>▪ Between 5 and 15 years</li> <li>▪ Less than 5 years</li> </ul>	7  5  3	<p>Due to the analysis of variables such as:</p> <ul style="list-style-type: none"> <li>▪ Integration process problems; and</li> <li>▪ Time lags between the M&amp;A deal and its subsequent impact upon the performance can only be operationalised if it is related to a given period of time,</li> </ul> <p>Only M&amp;As activity that were at least five years old were considered. Therefore, the longer the M&amp;A took place, the higher the score as this allows the post-acquisition process to settle down and provides a broader picture of the performance of the M&amp;A.</p>
Notes: <ul style="list-style-type: none"> <li>▪ Company data is derived from company annual reports and press clippings between 1990 and 2000.</li> <li>▪ The assigned numbers to each criterion are the author's own to fit in order to obtain a rank between 0 and 10 (0 for low importance; and 10 for high importance).</li> <li>▪ These five criteria were then assigned to the formula seen in Figure 5.4 to evaluate the attractiveness of the firm for the purpose of this study.</li> </ul>		

Source: Author



## Company elimination process

In order to locate suitable acquirers to contact for the fieldwork, the current author designed a comprehensive company elimination process. Figure 5.3 displays the preliminary elimination process in which the researcher undertook to select the possible case companies based on the preceding five criteria.

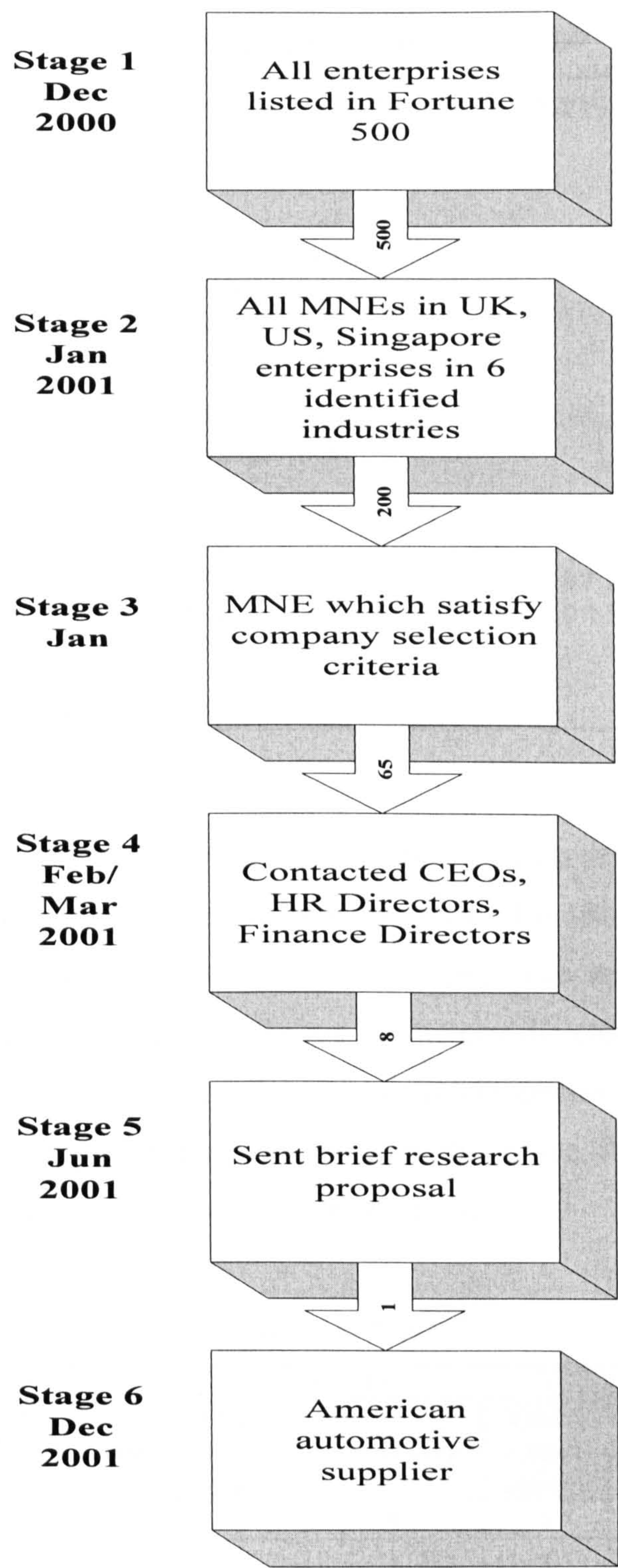
In *stage 1*, the researcher looked at companies listed in the 'Fortune 500' between 1999 and 2001. A filtration process took place in *stage 2*, based loosely on the five criteria (discussed in Table 5.6). Two hundred companies from the United Kingdom, the United States, and Singapore were chosen to go through to the next stage of the process.

In *stage 3*, evidence from financial data provided in company reports and press clippings between 1990 and 2000 were used to match against the research criteria. The rationale behind this choice of information was that company reports are accessible and provide reasonably standardised information.

Based on the financial reports, 200 companies were rated according to the author's five criteria. The author assigned ratings to each company, which were then inserted into the formula, displayed in Figure 5.4. An added value for each possible case study was calculated according to this formula. Each possible case study can score between zero and ten, where the score of zero represents a poor case study and hence should be eliminated from the search process and the score of ten represents characteristics that would make the company an ideal acquirer to study. For this formula to be valid, it assumes that there were no other selection criteria that was significant to be added to it.



Figure 5.3: The sampling elimination process



Sources: Fortune 500 magazine (2000), press clippings and company annual reports between 1990 and 2000.

Note: The figures in the arrows indicate the number of each particular population.



Figure 5.4: Formula applied in *Stages 2 and 3*

$$AV (CS) = 2 * \frac{SC}{MPV_{SC}} + \frac{\Sigma (DCD)}{MPV_{DCD}} + \frac{DT}{MPV_{DT}} + \frac{DP}{MPV_{DP}} + \frac{ECBMA}{MPV_{ECBMA}}$$

AV (CS):

SC:

DCD:

DT:

DP:

ECBMA:

MPV:

Added Value (Case Study)

Size of Company

Degree of cultural diversity

Distribution of turnover

Distribution of Profits

Experience in cross-border M&As

Maximum possible value

where,

$MPV_{SC}$

$MPV_{DCD}$

$MPV_{DT}$

$MPV_{DP}$

$MPV_{ECBMA}$

=

=

=

=

=

6

46

1000 (10 \* 100% turnover)

1000 (10 \* 100% profits)

7

AV (CS) € [0; 10]

Source: Author

In *stage 4*, sixty-five companies from the six industries with the highest scores were contacted by post requesting participation in the study. The letters were followed-up by telephone conversations two weeks later if no responses were received. CEOs, human resource directors, finance directors or strategy directors were contacted to solicit interest in the study. A breakdown of the companies contacted is seen in Table 5.6. Eight companies that were a good fit to the five research criteria, responded with interest in participating in the research.

Table 5.6: Breakdown of the 65 companies contacted

Country	Industry						Total
	Food & Drink	Banking	Pharmaceutical	Electricity	Telecommunications	Automotive	
UK	20	7	8	8	5	-	48
US	3	-	3	-	3	3	12
Singapore	1	3	-	-	1	-	5
Total	24	10	11	8	9	3	65

Source: Author



In *stage 5*, the researcher sent a short research proposal to eight companies detailing the benefits of participating and the extent of the company involvement in the research. This research brief was sent to the contacts provided by the initial correspondents of the companies that expressed interest. This was followed-up by further telephone calls to clarify issues and to negotiate participation.

In the final stage, *stage 6*, one American MNE in the automotive supplier industry granted the required full-access to study their European acquisitions that took place in the 1990s provided that they remained anonymous. The acquirer allowed the researcher to study four of its acquisitions in Europe - in Germany, France, and Sweden. These acquired subsidiaries were chosen because:

- The M&As took place in the 1990s, the exact time period where M&A was the popular corporate strategy for growth and expansion overseas;
- All four companies were about the same size and were considered small-medium enterprises with less than 500 employees. Similar sized firms allows a better comparison of the issues that emerge from the post-acquisition process in different countries; and
- The firms were located in different European countries, allowing the cross-cultural aspects to be studied.

A non-disclosure agreement has been signed with the American multinational corporation to protect the identity of the corporation and participating personnel.

The justification for the chosen industry and company choice has been summarised in Table 5.7.



Table 5.7: Justification of chosen industry and company case

Why the automotive industry?	Why chosen multinational company?
▪ Global players and key strategy is to create strong presence in many countries	▪ One of the highest scorers in the company selection formula seen in Figure 5.4
▪ Wide range of experience in both domestic and cross-border M&As	▪ A main player in the automotive supplier market
▪ Provide an excellent sample of cross-multicultural management	▪ Active in acquisitions during the 1990s
	▪ Diverse global workforce

Source: Author

This entire elimination and selection process took a total of eighteen months until the signing of the confidentiality agreement with the American acquirer. The lengthy process was necessary, as it was imperative to select the right company in the right industry in order to gain valuable insights into the cultural interactions that take place in the post-acquisition process. In order to gain such insights, a relationship of trust had to be forged between the researcher and the final eight companies for full company access, not only at the acquirer’s site but also at the acquired firms’ sites.

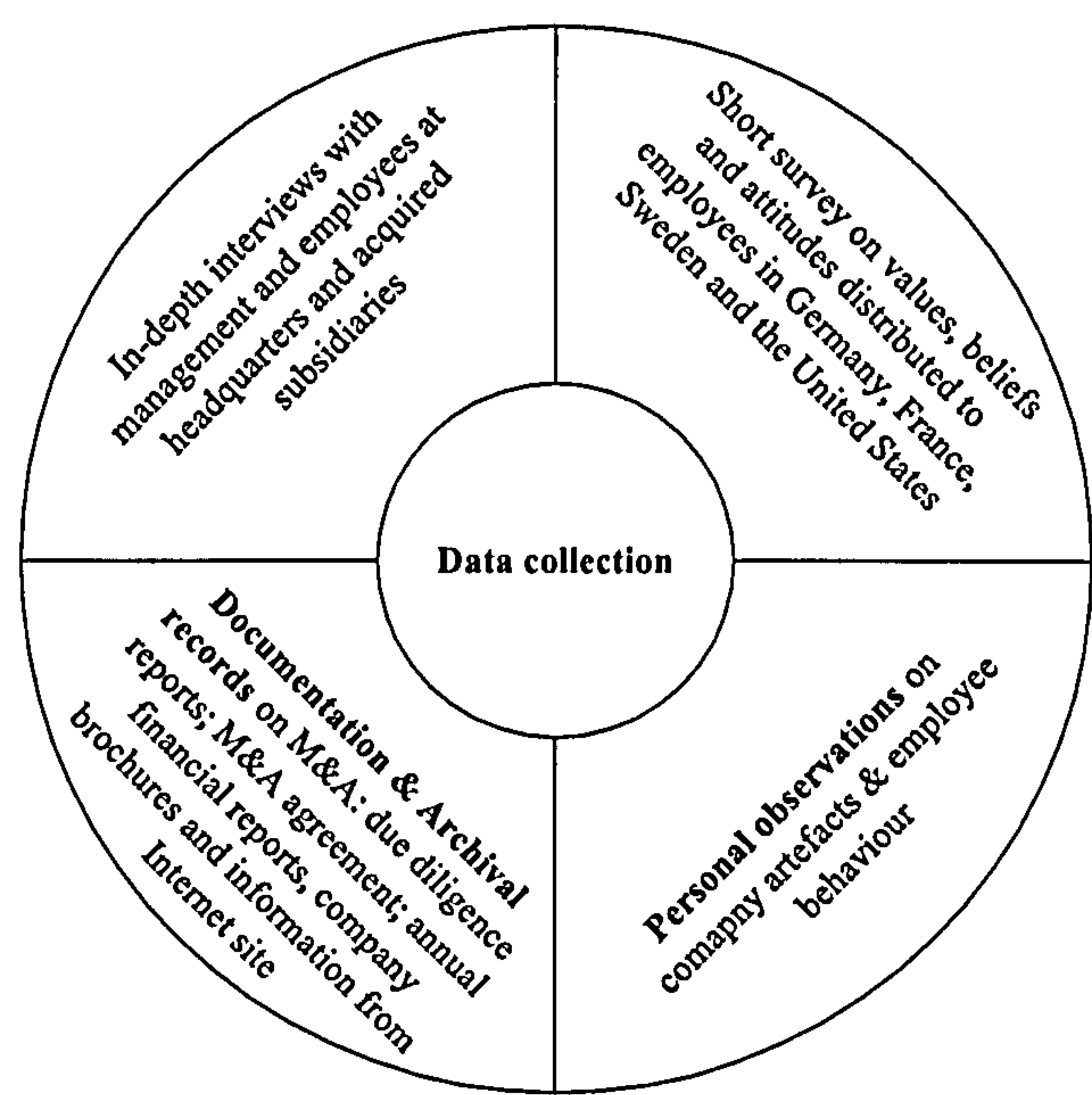
However, the data collection at the acquired firms’ sites was smooth flowing because the researcher was granted access from the headquarters and therefore the participants at the acquired countries were very willing to arrange visits and organise the interviews for the researcher. Also, during the interviews, it was easy to discuss the sensitive nature of cultural differences, ‘us versus them’ attitudes, unhappiness, resistance and the perceptions of the post-acquisition process as trust has already been developed between the researcher and her participants. The phases of the data collection process are discussed next.



**5.3.5 Data collection process**

The multiple sources of evidence technique were employed in this research to collect the primary data and this process has been divided into three main phases. These are summarised in Figure 5.5 and Table 5.8 respectively.

Figure 5.5: Multiple sources of data collection



Source: Author

**Phases of data collection**

The three phases (seen in Table 5.8) consisted of desk research on the company, interviews and questionnaire distribution at the four acquired subsidiaries site, and the American and European headquarters sites.



Table 5.8: Data collection phases

Phases	Fieldwork and Timeline	
<b>Phase One</b> – Desk research on company	<b>August 2001 to January 2002</b>	
	<i>Location</i>	<ul style="list-style-type: none"><li>▪ Glasgow- Desk research on MNE</li></ul>
	<i>Material obtained from MNE</i>	<ul style="list-style-type: none"><li>▪ Archival data prepared in-house and by third parties of cross-border M&amp;As</li></ul>
<b>Phase Two</b> – Interviews with acquired subsidiaries and the European HQ of the acquirer  (Funded by The Carnegie Trust for Universities of Scotland)	<b>February and March 2002</b>	
	<i>Location</i>	<ul style="list-style-type: none"><li>▪ At 4 acquired subsidiaries (1 in France, 2 in Germany, 1 in Sweden)</li><li>▪ European HQ in Germany</li></ul>
	<i>Interview structure</i>	<ul style="list-style-type: none"><li>▪ 29 interviews were conducted with ‘strategists’, ‘implementers’ and ‘recipients’ who were extensively involved in the M&amp;As post-acquisition process</li><li>▪ Average duration of 1½ to 2 hours each</li><li>▪ Interview guidelines provided in advance</li></ul>
	<i>Questionnaire distribution</i>	<ul style="list-style-type: none"><li>▪ 75 questionnaires returned, 37.5% response rate</li></ul>
	<i>Personal observations</i>	<ul style="list-style-type: none"><li>▪ Notes were taken on architecture of sites, office layout, art objects used, dress code and demeanour of employees, greetings, security etc.</li></ul>
<b>Phase Three</b> – Interviews conducted at the US headquarters, the acquirer  (Funded by The Carnegie Trust for Universities of Scotland)	<b>September 2002</b>	
	<i>Location</i>	<ul style="list-style-type: none"><li>▪ At US headquarters</li></ul>
	<i>Interview structure</i>	<ul style="list-style-type: none"><li>▪ 3 interviews were conducted with ‘strategists’</li><li>▪ Average duration of 2 hours each</li><li>▪ Interview guidelines provided in advance</li></ul>
	<i>Questionnaire distribution</i>	<ul style="list-style-type: none"><li>▪ 41 questionnaires returned, 82% response rate</li></ul>
	<i>Personal observations</i>	<ul style="list-style-type: none"><li>▪ Notes were taken on architecture of site, office layout, art objects, dress code and demeanour of employees, greetings, security etc.</li></ul>

Source: Author



## **Documentation & archival records**

In order to improve the quality of the data collected from the interviews, archival records and documentation of the company cases were collected as supporting information.

Initial documentation from the Internet allowed the researcher to tailor the interview guide to suit each deal, which in turn maximised the value of the interviews. This phase took place during the last quarter of 2001. The purpose was to gather as much information on the acquirer and its four cross-border M&As into Europe for background analysis.

During the field visits at the acquired sites and the European headquarters, the researcher gathered several archival records (Table 5.9). These records were gathered to allow the researcher to crosscheck on factors such as acquisition performance of each acquired company.

## **In-depth interviews**

In-depth interviewing is a data collection method relied on extensively by qualitative researchers (Marshall and Rossman, 1995). It is described as, “conversation with a purpose” (Kahn, 1957). Patton (1990) categorises interviews into three general types: the informal conversational interview, the general interview guide approach, and the standardised open-ended interview. The strengths and limitations of in-depth interviewing are seen in Table 5.10. The table also displays techniques the researcher undertook in the research design to minimise the limitations of the interview method.



Table 5.9: List of documentation and archival records gathered

	<b>First Automotive</b>	<b>German Security</b>	<b>French Security</b>	<b>Swedish Consultancy</b>	<b>German Antenna</b>
<b>Documentation</b>	<ul style="list-style-type: none"><li>▪ History timeline</li><li>▪ Brochures on divisions, products and customers</li><li>▪ Current M&amp;As process practiced</li></ul>	<ul style="list-style-type: none"><li>▪ History timeline</li><li>▪ Brochures on products</li></ul>	<ul style="list-style-type: none"><li>▪ History timeline</li><li>▪ Brochures on products</li></ul>	<ul style="list-style-type: none"><li>▪ History timeline</li><li>▪ Brochures on products</li></ul>	<ul style="list-style-type: none"><li>▪ History timeline</li><li>▪ Brochures on products</li></ul>
<b>Archival records</b>	<ul style="list-style-type: none"><li>▪ Performance figures such as sales &amp; profits, customer base</li></ul>	<ul style="list-style-type: none"><li>▪ Performance figures for 10 years</li><li>▪ Acquisition purchase agreement</li><li>▪ Presentation slides on post-acquisition by First Automotive</li></ul>	<ul style="list-style-type: none"><li>▪ Performance figures for 10 years</li><li>▪ Acquisition purchase agreement</li></ul>	<ul style="list-style-type: none"><li>▪ Annual board meetings</li><li>▪ Performance figures for 10 years</li><li>▪ Acquisition purchase agreement</li></ul>	<ul style="list-style-type: none"><li>▪ Due diligence reports</li><li>▪ Acquisition purchase agreement</li></ul>

Source: Author



Table 5.10: Strengths, limitations and dealing with limitations of in-depth interviewing

Strengths	Limitations	How researcher dealt with limitations
Useful way to get large amounts of data quickly	Time-consuming to analyse data collected	QSR Nudist software was used to provide more structure to the qualitative data
Combined with observations, interviews allow the researcher to understand the meaning people hold for their everyday activities	Difficult to obtain cooperation: interviewees may be unwilling or uncomfortable to share all that the interviewer hopes to explore, or may not be aware of recurring patterns in their lives.	Non-disclosure agreement was signed with the acquirer  Reassurances of anonymity prior to interviewing each interviewee. All names are withheld
	Lack of skill or lack of expertise or familiarity with local language of researcher	Interview guidelines were sent to interviewees 2 weeks in advance
	Issue of quality of data	NC & OC issues were further analysed by a short questionnaire distributed to employees

Source: Marshall and Rossman (1995) for strengths and limitations

In the interview guide, the critical incident technique was applied to a certain degree in the formulation of questions. Crises or critical incidents such as merger or acquisitions are significant in culture creation and transmission, partly because the heightened emotional involvement during such periods increases the intensity of learning. The selection of interviewees and critical incidents was based on certain criteria:

- Must have been involved in the integration process and the incidents must have occurred during the post-acquisition process; and
- Critical incident was seen from both the perspective of the acquirer and the acquired

The interviewer classified the critical incidents independently of each other. When differences occurred, they were resolved through discussion. Flanagan (1954) claimed that the decisive test of whether an incident may be adjudged a fact is



whether the observation is “objective” in terms of the probability that different interviewers would arrive at the same result.

### *Conducting the interviews*

The in-depth interviews were conducted during 2002 with both management and employees from the acquirer and the acquired firms. The researcher spent one working week at each acquired firm site, three working days at the European headquarters, and one week at the American headquarters.

In order to obtain richness in data, interviews were scheduled with management and employees that were involved in the post-acquisition process. The snowball sampling strategy was adopted to select interviewees. This strategy selected individuals on the basis of information obtained from other selected sample members or from other individuals (Patton, 1990). In this research, the initial contact person in US headquarters was the Assistant Finance Director, who provided the researcher with the contact information of the European Human Resource Director. The researcher liaised with her through e-mails and telephone conversations over a period of one month prior to commencing field visits at the European acquired firms' sites.

Three terms (Jick, 1991) have been used to differentiate employee groups that were interviewed:

- i) *'Strategists'* were the senior directors who were 'in charge' of the acquisition;
- ii) *'Implementers'* were the top to middle level managers responsible for implementing the directives of the strategists in a day-to-day business environment; and
- iii) *'Recipients'* were the employees who receive the directives during the post-acquisition process and acted upon them.

The snowballing technique was applied during discussions with the European HR Director in gathering the contacts of the 'strategists' and 'implementers' of each acquisition. The list of contacts consisted of finance and human resources directors/managers. They were interviewed at the acquired sites prior to the



‘recipients’ whom were selected by the stratified non-random sampling strategy. This strategy was used because the proportion of the subgroup (strata) was known in the population and selection was in a non-random purposive, convenient manner. The interviewees were selected randomly (based on their availability during the researcher’s field visit) from each subgroup (different departments) of the population (‘strategists’, ‘implementers’ and ‘recipients’ who were involved throughout the acquisition process, particularly during the post-acquisition stage).

Interviews were conducted across the organisation such as the finance; marketing; human resources; manufacturing; and research and development departments. This allowed the researcher to gain a better perspective of the cultural differences and the degree of the differences accounted in various departments and how they were managed. Table 5.11 details the timing and dates of all 32 interviews conducted in Europe and the US.

Interviewing both acquirer and targets allowed a comparison of views that is seldom achieved in M&As studies. The advantage of including the acquirer and target is that it enables the researcher to identify possible differences in their attributes to problems in the post-acquisition process.



Table 5.11: Breakdown of interviewee profiles and dates of interviews

	First Automotive	German Security	French Security	Swedish Consultancy	German Antenna	TOTAL
<b>‘Strategists’</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>8</b>
International business director	24/09/02; 1pm	-	-	-	-	
Plant manager/MD/co-founder	-	06/03/02; 4 pm	26/02/02; 3 pm	21/02/02; 10 am	-	
Finance director	18/09/02; 3pm	-	-	20/02/02; 3pm	-	
HR director	-	-	-	-	14/03/02; 1pm	
R&D director	-	-	-	-	-	
M&As team member	19/09/02; 10 am	-	-	-	-	<b>13</b>
<b>‘Implementers’</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>3</b>	
HR	19/03/02; 10am	-	27/02/02; 11 am	19/02/02; 1 pm	-	
Finance	20/03/02; 10am	06/03/02; 6 pm	25/02/02; 10.30 am	-	14/03/02; 10 am	
R&D	-	-	28/02/02; 9am	-	13/03/02; 1.30am	
Quality	-	06/03/02; 9 am	-	-	13/03/02; 1 pm	
Marketing /Purchasing	-	-	25/02/02; 2.30 pm 26/02/02; 5 pm	-	-	<b>11</b>
<b>‘Recipients’</b>	<b>-</b>	<b>6</b>	<b>2</b>	<b>-</b>	<b>3</b>	
Finance	-	-	-	-	13/03/02; 10am	
R&D	-	06/03/02; 11 am 08/03/02; 9 am 08/03/02; 2 pm	25/02/02; 1 pm	-	13/03/02; 8.30 am	
Quality	-	06/03/02; 2 pm 07/03/02; 4 pm	25/02/02; 4 pm	-	-	
IT	-	07/03/02; 9 am	-	-	13/03/02; 2 pm	
<b>Total no. of interviews</b>	<b>5</b>	<b>9</b>	<b>8</b>	<b>3</b>	<b>7</b>	<b>32</b>

Source: Author



### *Interview guide: Improving validity of interview data*

Interview guidelines were provided to the interviewees two weeks prior to the researcher's visit to each site. This allowed familiarisation of the topics that were to be discussed. It also provided the interviewees time to gather the relevant documentation or records of the post-acquisition process.

During the interviews, an interview guide was used to ensure that the similar questions were asked across the various departments to improve the validity of the data collected and decrease interviewer bias. However, the researcher did not impose any cultural dimensions on the interviewees. This method allowed the researcher to conduct interviews with an open mind and try to identify how and if their responses fit with the conceptual models developed. All interviews were tape-recorded except for one interview that took place in German Security. This particular interviewee was rather hostile and refused to be tape-recorded if the interview was to take place. Therefore, detailed notes were taken down during this interview and immediately after, the researcher tried to transcribe the interview from memory. Each interview lasted an average of one and half hours (Table 5.12).

At the end of each interview session, the researcher spent at least fifteen minutes recollecting the main points of the interview into an interview contact summary form (See Appendix 2). The practice of this allowed the main issues discussed to be highlighted and assisted in the analysis of data.

Table 5.13 provides the level of experience of each interviewee in the company.



Table 5.12: Data collection: interview hours

	First Automotive	German Security	French Security	Swedish Consultancy	German Antenna	TOTAL
<b>‘Strategists’</b>	<b>7</b>	<b>1.5</b>	<b>1.5</b>	<b>5.5</b>	<b>1.5</b>	<b>17</b>
International business director	3		-	-	-	
Plant manager/MD/co-founder	-	1.5	1.5	1.5	-	
Finance director	2	-	-	4	-	
HR director	-	-	-	-	1.5	
M&A team member	2	-	-	-		<b>23.5</b>
<b>‘Implementers’</b>	<b>5</b>	<b>3</b>	<b>8.5</b>	<b>2</b>	<b>5</b>	
HR	2	-	1.5	2	-	
Finance	3	1.5	2	-	1.5	
R&D	-	-	2	-	2	
Quality	-	1.5	-	-	1.5	<b>17</b>
Marketing /Purchasing	-	-	1.5 1.5	-	-	
<b>‘Recipients’</b>	<b>-</b>	<b>9.5</b>	<b>3</b>	<b>-</b>	<b>4.5</b>	
HR	-	-	-	-	-	
Finance	-	-	-	-	1.5	
R&D	-	1.5 2 1.5	1.5	-	1.5	<b>57.5</b>
Quality	-	1.5 1.5	1.5	-	-	
IT	-	1.5	-	-	1.5	
<b>Total no. of hours</b>	<b>12</b>	<b>14</b>	<b>13</b>	<b>7.5</b>	<b>11</b>	

Source: Author



Table 5.13: Accumulated years of experience in the respective positions

	First Automotive	German Security	French Security	Swedish Consultancy	German Antenna	TOTAL
<b>‘Strategists’</b>	<b>90</b>	<b>22</b>	<b>4</b>	<b>40</b>	<b>19</b>	<b>175</b>
International business director	40	-	-	20	-	
Plant manager/MD/co-founder	-	22	4	20	-	
Finance director	30	-	-	4	-	
HR director	-	-	-	-	19	
M&A team member	20	-	-	-	-	
<b>‘Implementers’</b>	<b>17</b>	<b>16</b>	<b>15</b>	<b>2</b>	<b>30</b>	<b>80</b>
HR	7	-	1	2	-	
Finance	10	2	5	-	4	
R&D	-	-	1	-	16	
Quality	-	14	-	-	10	
Marketing /Purchasing	-	-	4	-	-	
<b>‘Recipients’</b>	<b>-</b>	<b>76</b>	<b>18</b>	<b>-</b>	<b>31</b>	<b>125</b>
Finance	-	-	-	-	16	
R&D	-	17	9	-	10	
		13				
		10				
Quality	-	14	9	-	-	
IT	-	12				
		10	-	-	5	
<b>Total no. of years</b>	<b>107</b>	<b>114</b>	<b>37</b>	<b>42</b>	<b>80</b>	<b>380</b>

Source: Author



### *Draft report of interviews: Improving quality of interview data*

Before the actual case study report for this research was written, the researcher held a presentation to the assistant finance director during her visit to the US to check for factual and interpretative accuracy of the information gathered from the interviews and other sources such as documentary evidence and personal observation at the acquired subsidiaries. The facts gathered from the acquired firms were verified by the assistant finance director and he would like the researcher to return to the US upon completion of her PhD to present to the board of directors her recommendations for managing future M&As.

Several authors have described this process of ‘member checks’ (e.g. Lincoln & Guba, 1985; and Spradley, 1979), as the most important credibility check. From a methodological standpoint, getting the participants to review the “draft case” helps improve the quality of the case studies (Yin, 1987; and Buchanan et. al., 1987).

### *Survey at acquired subsidiaries*

The survey was a secondary instrument for collecting primary data. The researcher distributed short questionnaires to employees in each acquired subsidiary and at the American headquarters. The short survey was conducted simultaneously (parallel/simultaneous mixed method design) and analysed in complementary manner to the interviews. Creswell (1995) contends that the quantitative results would not necessarily relate to or confirm qualitative results (and vice versa) in this design, but most studies using this approach generate numerical and narrative data that answer similar questions.

The questionnaire aimed to address the range of nationality-specific topics identified in the multi-dimensional cultural framework interface. This allowed the researcher to look for instances of agreement and disagreement between the qualitative interviews and the quantitative data sources regarding the national culture and organisational culture dimensions in Germany, France, Sweden and United States. The questionnaire did not include questions related to the M&A because the researcher did not want to limit her response rate.



### *Questionnaire design*

The secondary research instrument of this research was a self-administered questionnaire to measure cultural attitudes at each acquired site and at the acquirer's American headquarters (Appendix 1). The questions are drawn from established scales used in Hofstede (1980) and Trompenaars (1993) studies.

The questionnaire consisted of 37 questions divided into three sections consisting mainly of Osgood-type (semantic differential scales). The respondents were asked to express their perceptions to an attitude object by putting a mark on each of a set of bi-polar adjective scales (e.g. one for excellent to five for poor). The advantage of this type of scale is that the same set of bipolar adjectives can be used to measure attitudes regarding a variety of attitude objects.

The first section (A) consisted of 13 bi-polar questions that required the respondents to provide his/her perceptions on individual values, goals and beliefs in life. The common five-point scale was used. The purpose of the questions in this section was to study the individualism vs. collectivism dimension identified in the multi-dimensional cultural framework.

The second section (B) consisted of 17 questions related to the level of managerial support the employees perceived they received from their company. This section consisted of a mixture of 15 bi-polar five-point scales and 2 multiple-choice questions. The purpose of the questions in this section was to study the power orientation, masculinity vs. femininity, attitude to rules identified in the multi-dimensional cultural framework.

The last section (C) of the questionnaire covers seven basic demographics questions. It comprised gender, age group, education level and the nationality of the respondent. It also enquires about the respondent's length of employment in the company and his/her intention to stay working in the company. The reasons for including these last two questions were included to study the tolerance to uncertainty and time orientation of the country.



The mainly scaled-response questionnaire was decided upon because it measures the intensity of the respondents' answers best, as compared to other types of questions. The questionnaire was used to collect information of the employees' personal values and beliefs of the country and the amount managerial support they perceive they receive in their working environment in the four countries: the United States, Germany, France and Sweden. Demographic data was collected for correlation of variables.

The questionnaire was pre-tested to identify misinterpretations by respondents, lack of continuity, and the general respondent reaction to the questionnaire. The pre-tests were conducted among fellow Ph.D. colleagues. Revisions were then made to correct the mistakes identified. Upon revisions, the questionnaire was proof-read before being translated into the German and French language for distribution in the German and French acquired subsidiaries.

### Translation

Comparing across cultures without awareness of language always results in biased and impoverished findings. As Faucheux (1976, p.271) phrases the issues in a definitive way: 'The hope of doing language free cross-cultural research is vain.' Therefore, translation of the questionnaire into the local language was adopted in this research. The technique of back-translation (Campbell and Werner, 1970) is the most widely employed method for reaching translation equivalence in cross-cultural research. This method helps to identify probably translation errors.

The first translator translated the English version of the questionnaire into German or French. Then another translator, ignorant of the source-English text, translates the first translator's German or French versions language back into English. The current author's colleagues from the university who were native speakers of the German and French languages were chosen to conduct the translations. This is to avoid any translation errors and discrepancies between the different language versions.



The questionnaire was not translated into Swedish because upon discussing the need for translation with several Swedish colleagues and the contact personnel at the acquired subsidiary, Swedish Consultancy, it was deemed unnecessary, as most Swedish were fluent in English.

### *Sample*

The target sample for this short survey was to achieve approximately 250 respondents (50 from each acquired site and 50 from the acquirer). The size of the sample was limited by the approval of the respective management at each acquired site.

The questionnaire was distributed to all four acquired sites and to the US headquarters during the researcher's visit. All sites returned the questionnaires except for the second German M&A, German Antenna. Its management wanted to distribute the questionnaires but its works council refused to provide permission to distribute the questionnaire for reasons that it wanted to protect the employees' privacy. This left the management with no choice but to disallow the distribution of the questionnaires. However, this problem did not have an effect on research because the return rate of the questionnaires from the other German M&A (German Security) was relatively high. Thus, measurement of the German culture can be based on these responses.

### *Questionnaire distribution process*

The main criterion for selecting the sample size is that respondents should be from a variety of departments. A simple random sampling strategy was used to distribute the survey to the employees. This means that every individual at the acquired site had an equal and independent chance of being selected for the study, thus eliminating bias. The selection took place in the following manner:

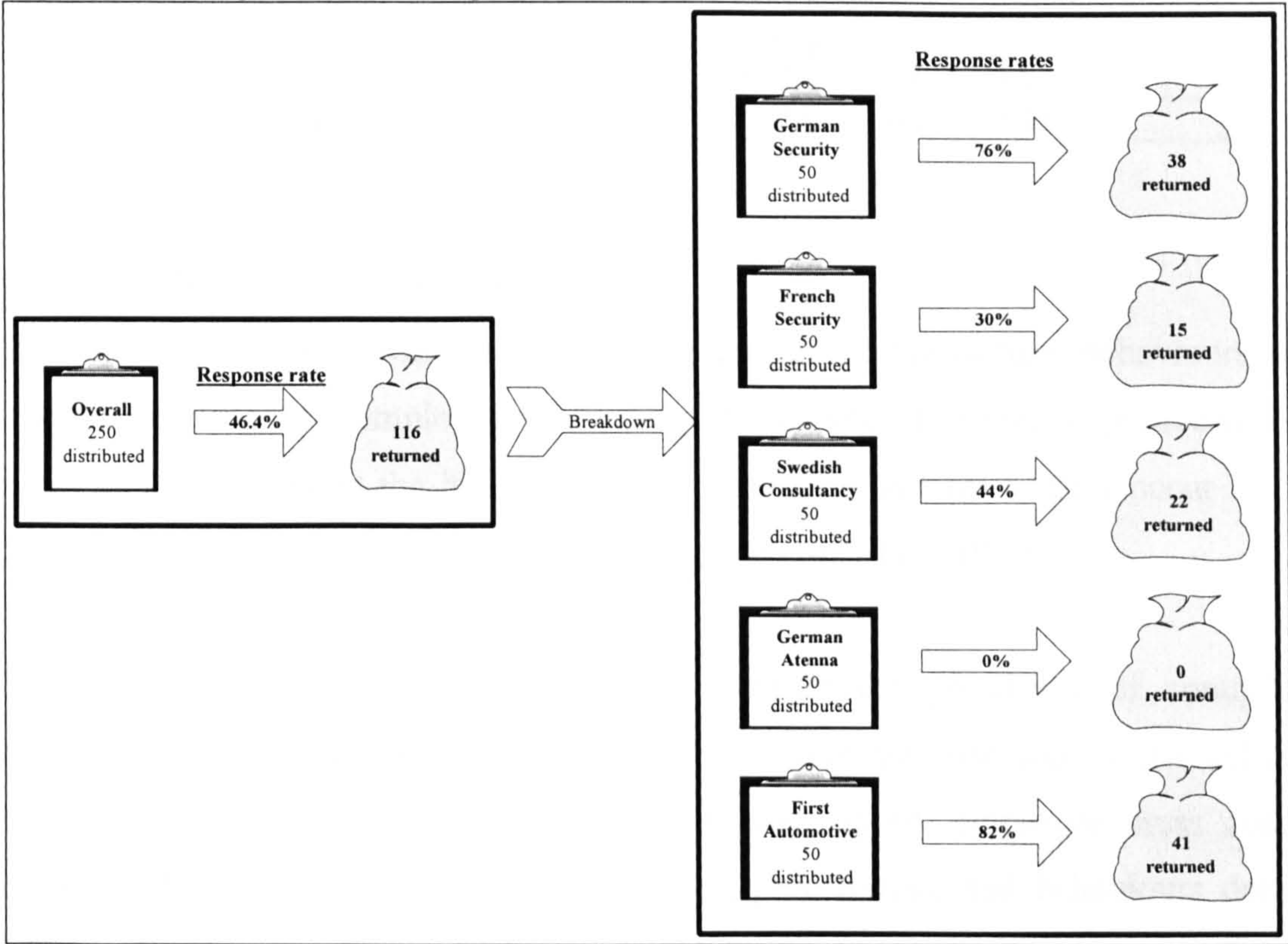
- i. Explain the questionnaire and seek permission from acquired management to distribute the questionnaire;



- ii. Questionnaires were distributed by using the in-house mailing system, by randomly dropping them in the mailboxes of employees;
- iii. If necessary, the researcher explains the questionnaire to the respondents individually to secure his/her co-operation; and
- iv. The employees were then instructed to return their completed questionnaires before the end of the researcher’s visit at the acquired site to the reception office.

During the field visit at each acquired site and at the acquirer’s US headquarters, 50 questionnaires were dropped-off on the first day. Although a total of 75 questionnaires were finally returned from three acquired sites, there were different response rates at each acquired site (Figure 5.6 for response rates for each site).

Figure 5.6: Response rates of questionnaires



Source: Author

It must be noted that collecting the questionnaires back from the different subsidiaries took a varying degree of persuasion skills from the researcher. The



return of the questionnaires from First Automotive headquarters and from German Security was the shortest; it took a day to get back most of the questionnaires with little difficulty. It was almost as quick in Sweden.

However, it was not as easy to collect the distributed questionnaires from the employees of French Security. The researcher had to conduct personally daily rounds to the desks of the employees to remind and persuade them to fill up, return the questionnaires, and even with that, only 15 questionnaires were returned by the last day the researcher was in France. A typical respondent profile of the four countries is seen in Table 5.14.

Table 5.14: Typical respondent profile

Respondent profile	Gender	Average age group	Highest education	Department
America	Male	31-40 years	Post-graduates	Marketing/Engineering
Germany	Male	25-30 years	Post-graduates	R&D/Engineering
France	Male	31-40 years	Post-graduates	R&D
Sweden	Male	31-40 years	Post-graduates	R&D

Source: Author

**Personal observations during field visit**

Participant observation was used to observe and record the cultural behaviours and events of the manager-employee relationship at each site. The main objective was to measure and document the behaviours and interaction patterns as they occur in the “natural setting” (Rosnow, & Rosenthal, 1996; and Spradley, 1979).

The advantage of this method is that it reduced the possibility of controlled responses. Issues that were under observation were the artefacts of the cultural underpinnings at each site such as the company layout, employee dress codes, managerial-subordinate relationships (greeting procedures), and behaviours during lunch/coffee breaks, etc.

At each acquired firm site, the researcher was provided with a desk to work from and was allowed to walk freely around the office buildings without supervision. This



allowed the researcher to record events as they occurred and to conduct freely impromptu conversations with various employees at each site.

The observations provided ‘stories’ about how the employees behaved and worked and how the management and employees reacted to each other. These generated important further insights into the cultures.

The main issues that were observed were the “visible” aspects of organisational culture (Nahavandi and Malekzadeh, 1993; and Schein 1993). These included the technology, art, visible and audible behaviours of the management and employees at the acquired sites such as:

- Architecture and design of the building in which the organisation is housed;
- The office layout;
- The art objects used; and
- The dress and demeanour of managers and employees.

All observations were recorded in an observation summary form (Appendix 3). The researcher jotted down notes daily while visiting the six sites in Europe and the US.

## **5.4 DATA ANALYSIS**

The sequential QUAL-QUAN (qualitative-quantitative) analysis (Tashakkori and Teddlie, 1998) was adopted in this study to analyse the data collected from the interviews, observations, documentation and survey.

### **5.4.1 Interview data analysis**

The unit analysis in this research was the individual acquired company. Prior to the fieldwork, the researcher developed the conceptual framework and an interface discussed in earlier chapters based on the research questions. The researcher mainly adopted the “pattern-matching’ and comparative methods as suggested by Yin (1987) and Cook and Campbell (1979). This method was used to analyse the data collected



during the interviews and from other sources (i.e. documentary evidence, company archival records, and personal observations).

The analysis began with a careful scrutiny of the accounts of the critical incidents mentioned in the interviews. This method revealed certain clear patterns in the material, which made it possible and meaningful to classify the incidents in accordance with a cause and result model (Bejou et al., 1996). The causes of the critical incidents could be divided in source (where) and type (what). During the course of the critical incident, a certain tendency toward passivity or activity by the customer or the service provider could be distinguished.

These methods were supplemented by content analysis and explanation-building mode of analysis (Yin, 1987) to draw in-depth inferences of the complex inter-dependent and interactive relationships of the cultural dimensions in the post-acquisition process in each acquired case.

In order to improve the quality of the data collected from interviews, archival records and documentation of the company cases were collected to crosscheck factors such as culture and performance.

### **Interviews coded into QSR Nudist software**

Qualitative data presents a number of challenges that must be confronted by researchers. These challenges are related to the nature of qualitative data namely (1) its lack of an explicit organising structure; (2) its sheer volume of transcripts; and (3) its specificity (details about events, ideas, interactions, and incidents).

The qualitative analysis involves the researcher thinking about the data, developing ideas about it and exploring these ideas. Conceptual tools are needed to order, strengthen, enhance and bring clarity to the process. The index system in the QSR Nudist software allows the researcher to perform this (Gahan and Hannibal, 1998).

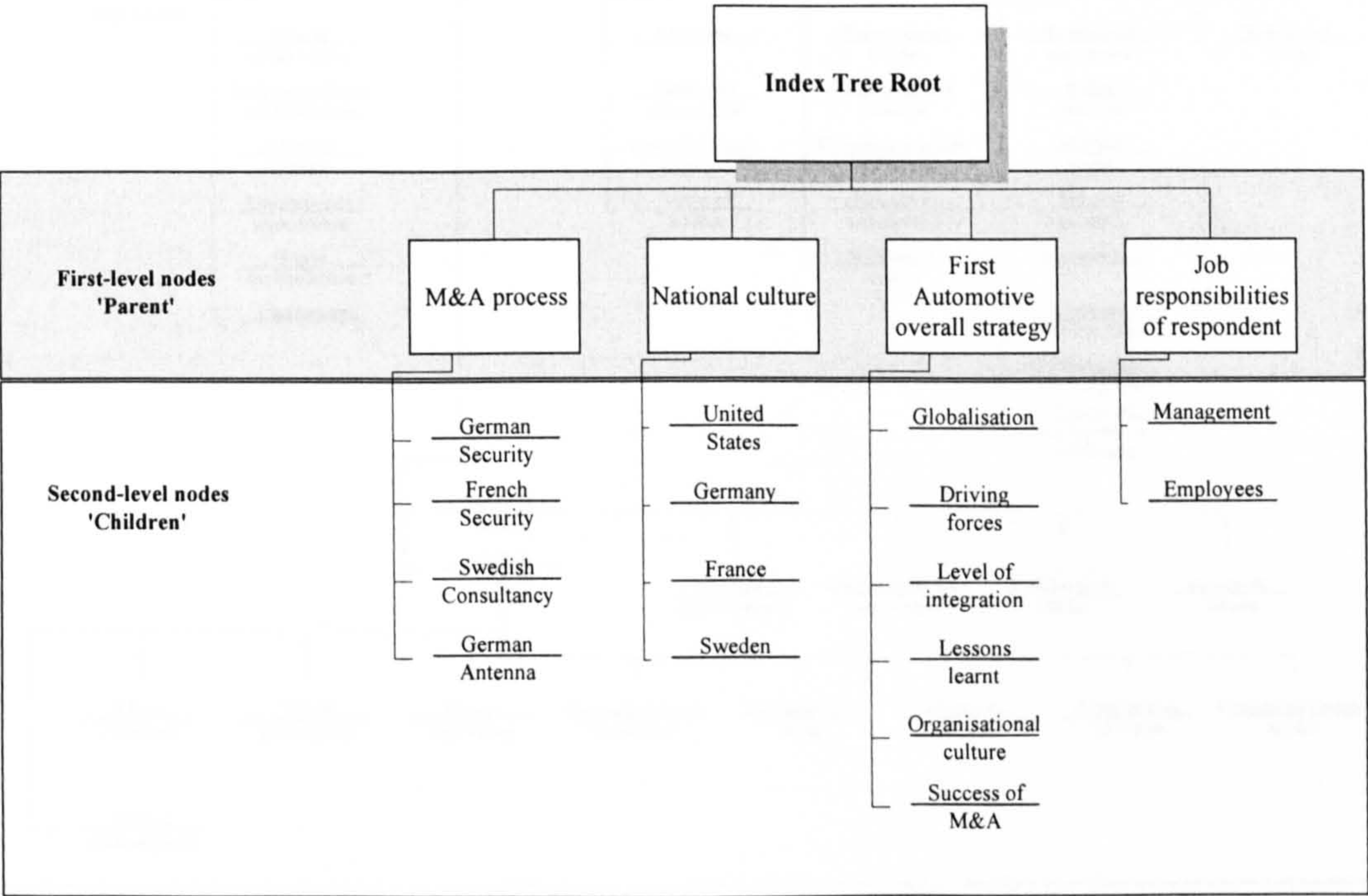


The index system allows the researcher to formulate the categories, themes or labels that express characteristics or elements of things, events and process, hunches and the beginnings of theories that are meaningful to the project (Gahan and Hannibal, 1998). Each category in the transcribed data was given a place in the index system and this place was referred to as a node. There were in total 488 nodes for this study.

These categories were drawn from the literature and the researcher’s theoretical framework and interface of this thesis through pattern coding. Pattern coding allowed the researcher to summarise information into a smaller number of sets, themes, or constructs. It’s “an analogue to the cluster-analytic and factor-analytic devices used in statistical analysis” (Miles and Huberman, 1994:69). The advantages of this coding were they assisted the researcher in reducing large amounts of data into smaller analytic units and laid the groundwork for cross-case analysis by identifying common themes and directional processes (Miles and Huberman, 1994).

The first two levels of the index system display the general categories for the transcribed interviews: parent nodes and children nodes (see Figure 5.7).

Figure 5.7: Index system derived from interview transcripts



Source: Author

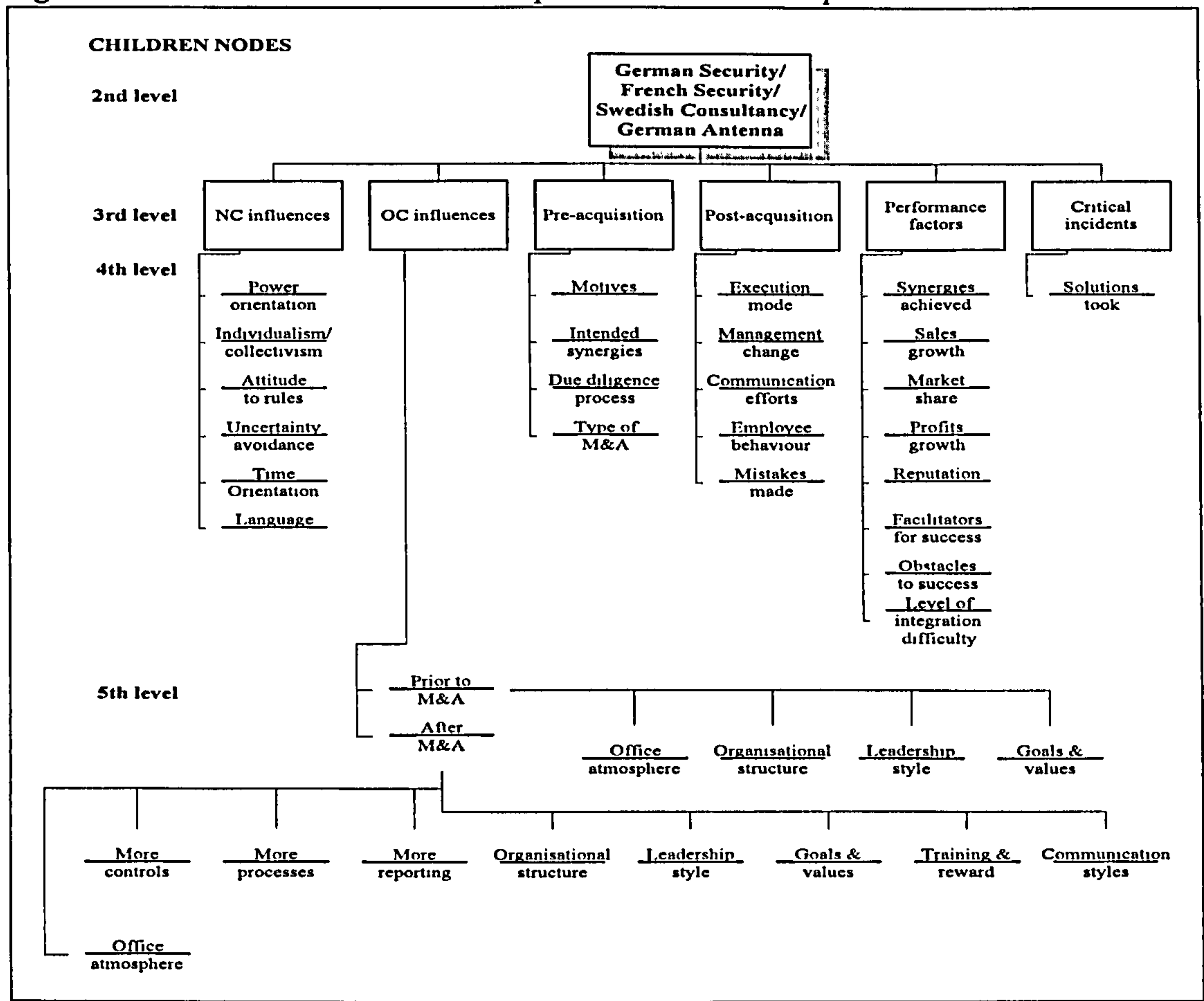


The categories in the index system were derived in the following steps:

- Printed transcripts of interviews and observations were read through twice to understand patterns and to identify possible codes to be entered into software;
- Began new project in software and browsed documents once again and coded data on screen;
- Conducted a search of the transcripts using string and pattern searcher, some of the search words were incorporated into the index system; and
- Browsed and examined coding a final time to ensure specificity of the transcripts had been captured entirely in the software.

Figure 5.8 displays levels two to five of the ‘children nodes’ for the different categories used to evaluate each acquired case of German Security, French Security, Swedish Consultancy, and German Antenna.

Figure 5.8: Children nodes for M&A process: for each acquired case

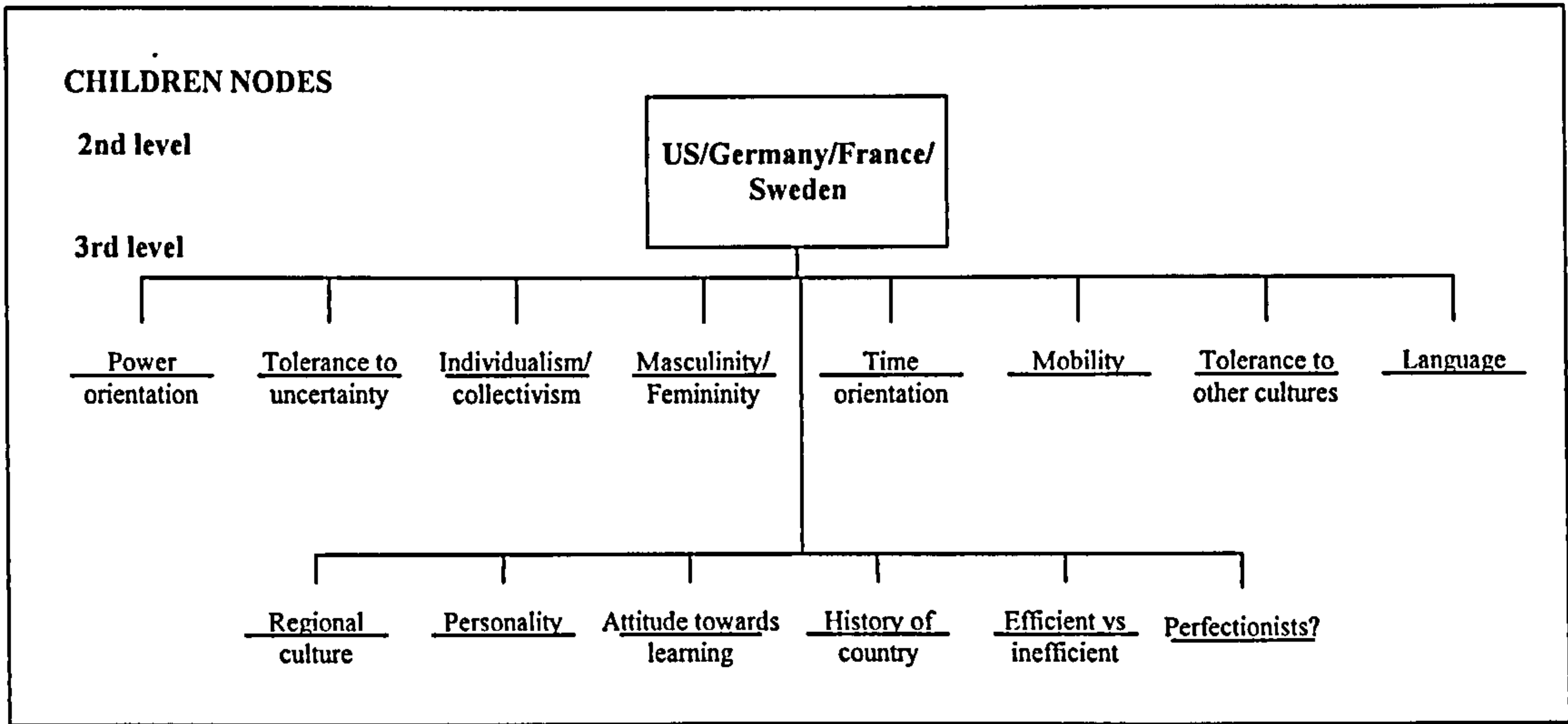


Source: Author



The ‘children nodes’ for each national culture for the US, Germany, France and Sweden are seen in Figure 5.9.

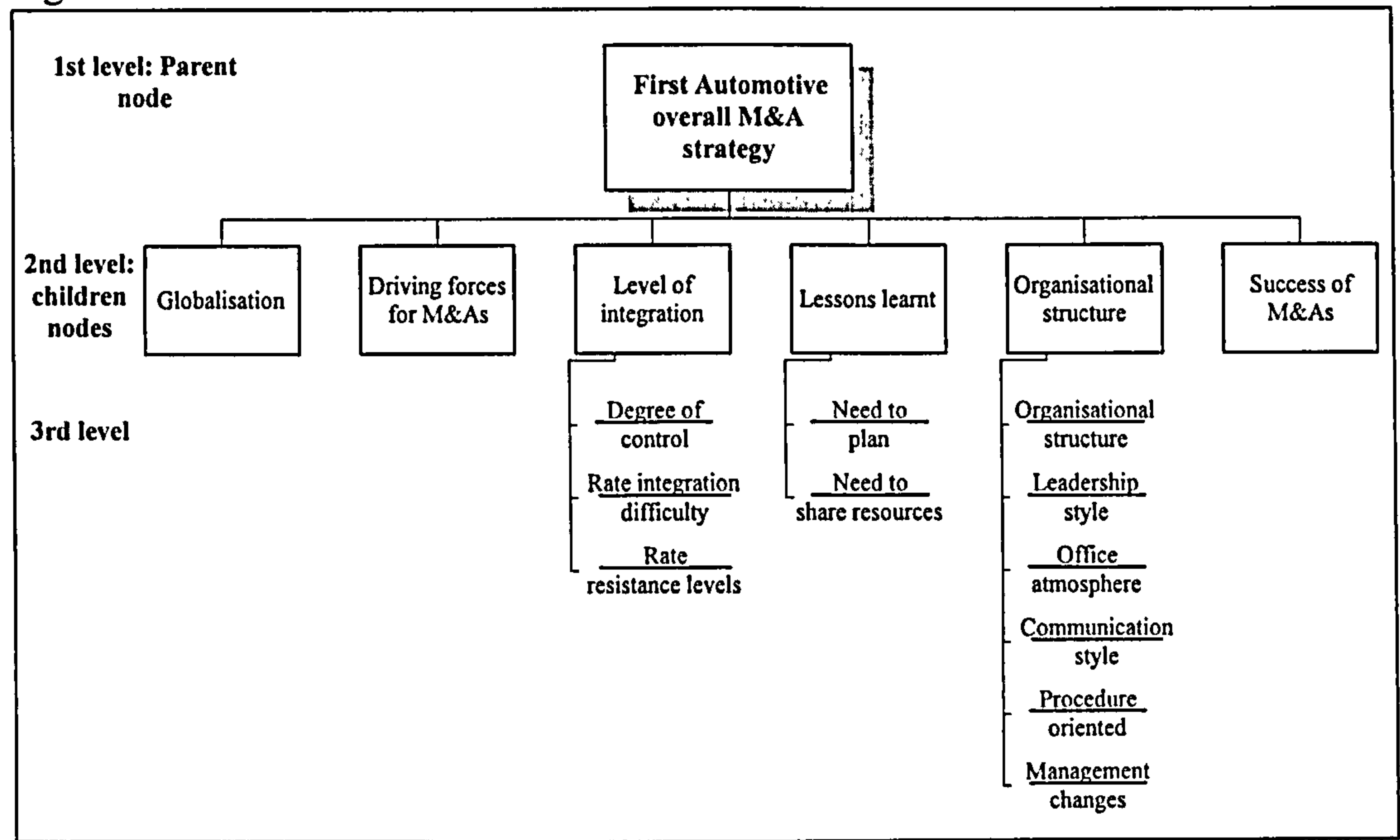
Figure 5.9: Children nodes for national culture



Source: Author

The next figure 5.10 displays the children nodes of the acquirer, First Automotive.

Figure 5.10: Codes for First Automotive



Source: Author



## **Measuring performance of M&As**

Measuring the performance of cross-border M&As is one of the objectives of this research. There are significant difficulties and problems associated with ‘objective’ measures in measuring post-acquisition performance (Kitching, 1967; and Porter, 1987) as integration of accounting systems obscures and distorts the acquired company’s figures and operational changes can be so substantial as to completely alter the nature of the acquired company (Kitching, 1984).

In this study, the following ways were used to determine the degree of success of the M&As:

- The perceptions of success from the employees from both the acquirer and the acquired. Interviewees were asked about profitability, realizing synergies (Kitching, 1967) and achieving strategic M&A objectives (Dess & Robinson, 1984);
- Monitoring profits, growth of firm and sales of before and after the M&A based on annual reports; and
- Monitoring the manufacturing performance for the manufacturing subsidiaries based on the acquirer’s worldwide manufacturing metrics.

## **Personal observations**

Observations during the researcher’s field visits were recorded into the observation summary form. The observations forms were then coded similarly as the interviews into QSR Nudist to analyse the data according to the index system and nodes identified from the literature and from pattern coding of the primary data. The interview data were reconcilable with the observational data to crosscheck consistencies between what the interviewees mentioned about organisational culture and to what was observed.



#### **5.4.2 Questionnaire data analysis**

The survey analysis was conducted in the SPSS programme (Statistical Package for the Social Sciences) version 11. This section describes the quantitative data analysis.

##### **Data analysis technique**

A total of 116 questionnaires were coded into a database and used for analysis. The data was analysed according to exploratory techniques such as descriptive methods.

*Descriptive methods* were used to provide summaries to help the researcher understand the nature of the variables and their relationships. These were used to analyse all the questions in the survey. These included frequencies, cross-tabulations of the data and means.

In order to measure the cultural dimensions, the measure of central tendency (means) together with cross-tabulation with nationality were applied to the dimensions (Table 5.15 for formulas). Means were also calculated for the demographic data in Section C of the questionnaire to identify the profiles of the typical respondent for each country.

In total, there are twelve cultural dimensions, six for national culture and six for organisational culture. The mean scores for each dimension are seen in Appendices 4 to 15.



Table 5.15: Calculation of NC and OC scores

Organisational culture dimension	Mean score calculation
Goal and value alignment (GVA) <i>Appendix 4</i>	<ul style="list-style-type: none"><li>▪ Short vs. long term (10 for long-term)</li><li>▪ Results oriented (10)</li><li>▪ Strength of company history on employees (10 for high strength)</li><li>▪ Multi-task environment (10)</li><li>▪ Customer orientation (10 for a high customer orientation)</li></ul>
Structure and controls (SC) <i>Appendix 5</i>	<ul style="list-style-type: none"><li>▪ Managers insist rules are followed (0 for never at all, 10 for always)</li><li>▪ Current managerial style (0 for abdicate; 10 for autocratic)</li><li>▪ Personal observations of centralised vs. decentralised structure (10 for centralised)</li><li>▪ Personal observations of high vs. low standardisation (10 for high standardisation)</li><li>▪ Process orientation (10 for high orientation)</li></ul>
Leadership style (LS) <i>Appendix 6</i>	<ul style="list-style-type: none"><li>▪ Level of competence of senior management (0 for excellent, 10 for poor)</li><li>▪ Ability of top management (0 for excellent, 10 for poor)</li><li>▪ Employees feel nervous at work (0 for never at all, 10 for always)</li><li>▪ Employees are afraid of manager (0 for never at all, 10 for always)</li><li>▪ Current manager (0 for abdicate, 10 for autocratic)</li><li>▪ Personal observations (10 for closed door and formal office atmosphere)</li></ul>
Communication style (CS) <i>Appendix 7</i>	<ul style="list-style-type: none"><li>▪ Listens to problems and complaints (0 for excellent, 10 for poor)</li><li>▪ Provides timely information (0 for excellent, 10 for poor)</li><li>▪ Encourages suggestions for improvements (0 for excellent, 10 for poor)</li><li>▪ Treats employees fairly and consistently (0 for excellent, 10 for poor)</li><li>▪ Timing of communication (10 for slow or delayed)</li><li>▪ Centralised system (10 for centralised)</li><li>▪ Cool reserve is admired (10 for highly admired)</li></ul>
Interpersonal relations (IR) <i>Appendix 8</i>	<ul style="list-style-type: none"><li>▪ Listens to problems and complaints (0 for excellent, 10 for poor)</li><li>▪ Treats employees fairly and consistently (0 for excellent, 10 for poor)</li><li>▪ Treat employees with respect as individuals (0 for excellent, 10 for poor)</li><li>▪ Working environment as a whole (0 for excellent, 10 for poor)</li></ul>



	<ul style="list-style-type: none"> <li>▪ Customer orientation (0 for high, 10 for low)</li> <li>▪ Relationship between the employer and employee (10 for weak relations or deem not important)</li> </ul>
Motivation, staffing and training (MST) <i>See Appendix 9</i>	<ul style="list-style-type: none"> <li>▪ Provides training (0 for excellent, 10 for poor)</li> <li>▪ Have enough qualified people to do the job (0 for excellent, 10 for poor)</li> <li>▪ Does something about problems (0 for excellent, 10 for poor)</li> <li>▪ Complaints of low motivation during interviews (0 no complaints, 10 for a lot)</li> </ul>
<b>National culture dimension</b>	<b>Mean score calculation</b>
Individualism vs. collectivism (IC) <i>Appendix 10</i>	<ul style="list-style-type: none"> <li>▪ Importance of having time for family (0 for not at all, 10 for extremely important)</li> <li>▪ Freedom in job (0 for not at all, 10 for extremely important)</li> <li>▪ Challenging work environment (0 for not at all, 10 for extremely important)</li> <li>▪ Training opportunities (0 for extremely important, 10 for not at all)</li> <li>▪ Good physical working conditions (0 for extremely important, 10 for not at all)</li> <li>▪ Fully use skills in job (0 for extremely important, 10 for not at all)</li> <li>▪ Organisation is impersonal (10)</li> <li>▪ Task prevail over relationships (10)</li> </ul>
Language (L) <i>Appendix 11</i>	<ul style="list-style-type: none"> <li>▪ Cool reserve (10)</li> <li>▪ Affective society vs. neutral society (10 for neutral)</li> <li>▪ Fluency of English (10 for not fluent)</li> <li>▪ Use of titles to address superiors (10 for high usage)</li> </ul>
Time orientation (TO) <i>See Appendix 12</i>	<ul style="list-style-type: none"> <li>▪ Length of employment (10 for long)</li> <li>▪ Intention to stay in employment in the same firm (10 for long)</li> <li>▪ Multi-task environment (10)</li> <li>▪ Time is measurable (0 for non-measurable)</li> </ul>
Tolerance to uncertainty and other cultures (TU) <i>Appendix 13</i>	<ul style="list-style-type: none"> <li>▪ Job security (0 for very important)</li> <li>▪ Managers insist rules are followed (0 for always insist)</li> <li>▪ Intention to stay in employment in the same firm (0 for intention to stay until retirement)</li> <li>▪ Sensitivity to other cultures (10 for very sensitive)</li> <li>▪ Tolerance to new ideas (10 for high tolerance)</li> <li>▪ Willingness to take risks (10 for high)</li> </ul>



	<ul style="list-style-type: none"> <li>▪ Willingness to change or adapt to other cultures (10 extremely willing)</li> </ul>
Power orientation (PO) <i>Appendix 14</i>	<ul style="list-style-type: none"> <li>▪ Preferred manager (0 abdicate, 10 for autocratic)</li> <li>▪ Afraid of managers (0 for never, 10 for always)</li> <li>▪ Feel tense at work (0 for never, 10 for always)</li> <li>▪ Managerial dress codes (0 for informal, 10 for formal)</li> <li>▪ Greeting of superiors (0 for informal, 10 for formal)</li> <li>▪ Respect for authority (10 for high respect)</li> <li>▪ Use of titles (10 for high usage)</li> </ul>
Masculinity vs. femininity (MF) <i>Appendix 15</i>	<ul style="list-style-type: none"> <li>▪ Opportunity to earn high (0 for not at all, 10 for extremely important)</li> <li>▪ Get recognition in good work (0 for not at all, 10 for extremely important)</li> <li>▪ Opportunity to advance (0 for not at all, 10 for extremely important)</li> <li>▪ Good working relationship with superior (0 for not at all, 10 for extremely important)</li> <li>▪ Work with people who cooperate (0 for not at all, 10 for extremely important)</li> <li>▪ Live in an area desirable personally and for family (0 for not at all, 10 for extremely important)</li> <li>▪ Job security in company (0 for not at all, 10 for extremely important)</li> <li>▪ Fewer women in more qualified jobs (10 for fewer women)</li> <li>▪ Aggressive and competitive environment (10 for high)</li> </ul>

Source: Author



#### **5.4.3 Measuring post-acquisition behaviour (level of resistance)**

The preceding cultural dimension scores were then inserted into a formula to gauge the level of post-acquisition resistance at the time of data collection (year 2002). This is an estimation of the resistant behaviour the employees at the acquired firms displayed in 2002. The researcher assumes that the level of resistance measured in 2002 is a good inference of the post-acquisition behaviour adopted in the acquired firm at the peak of implementing post-acquisition changes.

The main assumption of this formula (Figure 5.11) is that there were no other factors that could affect the post-acquisition behaviour adopted by the employees at the acquired firm, apart from the cultural dimensions identified in this study. Other assumptions are seen in Table 5.16



Figure 5.11: Formula for post-acquisition behaviour

$$\begin{aligned}
 &0.7R_{NC}\left[\frac{(15PO_{|A-S|})\pm(10IC_{|A-S|})\pm(5MF_{|A-S|})\pm(10TO_{|A-S|})\pm(25TU_{|A-S|})\pm(35L_{|A-S|})}{75}\right] \\
 &+ \\
 &R_{\text{in acquired subsidiary}}= \\
 &0.3R_{OC}\left[\frac{(20LS_{|A-S|})\pm(10GVA_{|A-S|})\pm(25CS_{|A-S|})\pm(25SC_{|A-S|})\pm(10IR_{|A-S|})\pm(10MST_{|A-S|})}{100}\right]
 \end{aligned}$$

Where,

- $R_{\text{in acquired subsidiary}} \in [0,10]$ , where 0 represents low resistance and 10 represents high resistance;
- $R_{NC}$  denotes resistance arising from national cultural differences;
- $R_{OC}$  denotes resistance arising from organisational cultural differences; and
- $|A-S|$  represents the difference of the acquirer’s mean score and the subsidiary’s mean score, where the outcome is always more than 0.

Note: The denominations of NC (75) and OC (100) are found by giving the maximum possible values to the twelve cultural dimensions in order to obtain 10 for highest resistance.

Source: Author



Table 5.16: Assumptions made for resistant formula in the post-acquisition process

Cultural dimensions	Assigned weights	Assumptions on influences on post-acquisition behaviour
Power orientation ( <i>PO</i> )	15	Assume the larger the differences between the acquirer and the acquired firm's countries, the higher the resistant behaviour in the acquired firm.
Individualism vs. collectivism ( <i>IC</i> )	10	The differences between the acquirer and the acquired firm influence the post-acquisition behaviour adopted in the acquired firm to some extent.
Masculinity vs. femininity ( <i>MF</i> )	10	Assume that if one firm possess masculinity characteristics and the other femininity characteristics, there will be some difficulty in implementing changes related to HR policies.
Time orientation ( <i>TO</i> )	10	Assume that if there are differences in value assigned to time, it will be difficult to realise M&A goals according to the period set by the acquirer.
Tolerance to uncertainty and other cultures ( <i>IU</i> )	25	Assume that the higher the tolerance, the easier it is to adopt post-acquisition changes and hence the lower the resistance. Therefore, the score for this is minus from the equation as this dimension reduces resistance.
Language ( <i>L</i> )	35	If the acquirer and the acquired firm do not share the same business language, the more difficult it will be for the acquired firm's employees to embrace post-acquisition changes
<b>Sub total for NC</b>	<b>100</b>	
Leadership style( <i>LS</i> )	20	Assume that differences lead to higher resistance
Goal & value alignment ( <i>GVA</i> )	10	Assume that differences lead to higher resistance
Communication style ( <i>CS</i> )	25	Assume that differences lead to higher resistance
Structure and controls ( <i>SC</i> )	25	Assume that differences lead to higher resistance
Interpersonal relations ( <i>IR</i> )	10	Assume that differences lead to higher resistance
Motivation, staffing & training ( <i>MST</i> )	10	Assume that differences lead to higher resistance
<b>Sub total for OC</b>	<b>100</b>	

Source: Author



## **5.5 STRUCTURE OF CASE PRESENTATION**

Chapter 6 introduces the history and background of the acquiring company and a brief analysis of the automotive supplier market. Chapters 7, 8, 9, and 10 present the four acquired cases in a chronological order to allow the reader to look at each particular acquired case and see how and why the cultural dimensions had an impact on the post-acquisition process. The cases were also presented in a similar sequence to allow the reader or analyst to identify the similarities or differences among them. It also facilitated the comparison of any one specific cultural dimension of impact on post-acquisition process across all four acquired companies.

The general structure of the presentation of each acquired case in Chapters 7 to 10 followed the structure of the research objectives and concurrent research questions as seen in Table 5.17.



Table 5.17: Structure of case presentation

Research objective (RO)	Research question (RQ)	Case structure	Contents	Data collection method applied
1. To produce a theoretical framework of managing the cross-border post-acquisition process that composites a multi-dimensional cultural framework	i. How does culture influence the cross-border post-acquisition process?  ii. Which cultural dimensions influence the post-acquisition process?	<b>M&amp;A background</b>	<i>Introduction</i> <ul style="list-style-type: none"><li>▪ Growth and origin of acquired company</li><li>▪ Details of acquisition</li></ul> <i>Motives for acquisition</i> <ul style="list-style-type: none"><li>▪ Evidence from interviews &amp; archival records</li><li>▪ From acquirer's point of view</li><li>▪ From acquired firm's point of view</li></ul> <i>SWOT analysis to justify the M&amp;A</i> <ul style="list-style-type: none"><li>▪ From the acquired firm's point of view</li></ul>	<ul style="list-style-type: none"><li>▪ Desk research</li><li>▪ Archival records &amp; documentation</li><li>▪ Personal interviews</li></ul>
2. To investigate the above frameworks through primary research	i. Based on findings primary research, do the frameworks apply?  ii. Do NC and OC interact during the post-acquisition process?  iii. How do NC and OC interact during the post-acquisition process?	<b>Post-acquisition management</b>	<i>Cultural influences &amp; impact on post-acquisition process</i> <ul style="list-style-type: none"><li>▪ Documentation of the OC &amp; NC interactions that occurred in the M&amp;A (positive and negative)</li><li>▪ NC differences between acquirer and acquired firm are further enhanced from evidence from field survey</li><li>▪ Problems caused in the post-acquisition process</li></ul>	<ul style="list-style-type: none"><li>▪ Personal interviews</li><li>▪ Field survey</li><li>▪ Personal observations during field visits</li></ul>



2a. To critically analyse the effects of those cultural dimensions on the post-acquisition behaviour of employees in the acquired firm	<p>i. How do differing NC and OC interaction influence the post-acquisition behaviour?</p> <p>ii. How does the acquirer manage these interactions and resulting behaviour?</p>	Post-acquisition management	<p><i>Post-acquisition changes &amp; timing</i></p> <ul style="list-style-type: none"> <li>Areas of changes categorised into phases</li> </ul> <p><i>Levels of resistance</i></p> <ul style="list-style-type: none"> <li>Categorised into phases of the post-acquisition process</li> <li>Reasons for resistance</li> <li>Cultural dimensions contributing to differing levels of resistance</li> </ul>	<ul style="list-style-type: none"> <li>Personal interviews</li> </ul>
2b. To identify the responses of employees in the acquired firm during post-acquisition changes	<p>i. Why do the acquired employees behave the way they do in the post-acquisition process?</p> <p>ii. Which factors affect their behaviour?</p> <p>iii. Does their behaviour change over the course of the post-acquisition process? Why?</p>			
2c. To identify whether cultural differences are relevant to cross-border acquisition performance	<p>i. Are culture differences related to the cross border performance?</p> <p>ii. How are they related?</p>	Post-acquisition performance	<p><i>Performance measures utilized:</i></p> <ul style="list-style-type: none"> <li>Sales growth</li> <li>Profit growth</li> <li>Employee growth</li> <li>Manufacturing metrics</li> <li>Synergies from views of interviewees</li> </ul> <p><i>Conclusions</i></p>	<ul style="list-style-type: none"> <li>Personal interviews</li> <li>Archival records &amp; documentation</li> </ul>

Source: Author



## 5.6 CONCLUSIONS

There is no universal ideal method for conducting research in any situation. Based on the existing theoretical literature on M&As and cultural studies in general, it is argued in this chapter that the case study is the optimal method in this research.

The case study method is also considered the most appropriate method when the researcher has access to multiple sources of evidence to investigate the contemporary impact of cultural dimensions on post-acquisition process within its real-life context (see Table 5.18 for summary of the advantages and limitations of each source of evidence used in this study).

The researcher applied five criteria to narrow the search process and ensure that the sample selected was reliable. The selected American automotive supplier company has more than half of their total assets employed in the five regions identified. However, due to the limitations of this Ph.D., this study looks at four of its earliest acquisitions in the 1990s in Europe. The evidence gathered from the four acquired sites focused on the “why” and “how” of cultural impact on post-acquisition process, with the objective to *capture the perceptions* of employees and analyse the managerial and communicative events in the post-acquisition process.

The following chapters present the findings and analyses of the acquirer and its four acquired European companies in Germany, France and Sweden. Each case is presented separately in an identical structure to make it easier for the reader to identify similarities and differences in the findings between them. It allows the reader to look at each case at a time and at the same time, make in-depth comparison of any one specific characteristic of the variables studied across the cases.



Table 5.18: Summary of multiple sources of methods used in this study

Data Collection Methods		Advantages	Limitations
<b>In-depth interviews</b> Most important source of case studies and dominant data collection method		<ul style="list-style-type: none"><li>▪ Reality – covers events in real time</li><li>▪ Contextual – covers context of event</li><li>▪ Useful in providing additional information of the topic studied.</li></ul>	<ul style="list-style-type: none"><li>▪ Time-consuming</li><li>▪ Selectivity – unless broad coverage</li><li>▪ Relativity – event may proceed differently because it is being observed</li><li>▪ High cost</li></ul>
<b>Adopted focused interviews</b> Interviewed key management and employees (short period of time –1 and a half hours average followed a certain set of questions derived from case study protocol)		<ul style="list-style-type: none"><li>▪ Corroborate certain facts you already think have established</li><li>▪ May provide a fresh commentary, if conducted with caution</li></ul>	<ul style="list-style-type: none"><li>▪ Interviewees may echo thoughts thus not providing new insights</li></ul>
<b>Survey</b> Short questionnaire distributed to employees at acquired firms		<ul style="list-style-type: none"><li>▪ Structured analysis</li><li>▪ Provide corroboratory evidence to key interview informants</li></ul>	<ul style="list-style-type: none"><li>▪ Limited to small sample</li><li>▪ Distribution was disallowed in German Antenna</li></ul>
<b>Documentation</b> Agenda, announcements, minutes of meetings, and other written reports of M&As  Administrative documents – M&As proposals, progress reports, and other internal documents  Newspaper clippings and other articles appearing in the mass media		<ul style="list-style-type: none"><li>▪ Stable – can be reviewed repeatedly</li><li>▪ Unobtrusive – not created as a result of a case study</li><li>▪ Exact – contains exact names, references, and details of an event</li><li>▪ Broad coverage – long span of time, many events and many settings</li></ul>	<ul style="list-style-type: none"><li>▪ Retrievalability was lower in German Security and French Security</li><li>▪ Biased selectivity, if collection is incomplete</li><li>▪ Access was deliberately blocked in German Antenna</li></ul>



<b>Archival Records</b> Organisational records e.g. organisational charts and budgets over a period of time	<ul style="list-style-type: none"> <li>Same as above for documentation</li> <li>Precise and quantitative</li> </ul>	<ul style="list-style-type: none"> <li>Same as above for documentation</li> </ul>
Lists of names of previous owners <b>Physical Artifacts</b> A technological device, a tool or instrument, a work of art, or some other physical evidence collected or observed as part of a fieldwork visit	<ul style="list-style-type: none"> <li>Insightful into cultural factors</li> <li>Insightful into technical operations</li> <li>If relevant, can be important component of the overall case</li> </ul>	<ul style="list-style-type: none"> <li>Selectivity</li> <li>Availability</li> </ul>
<b>Direct Observation</b> Field visits to all four acquired sites and European headquarters	<ul style="list-style-type: none"> <li>Reality – covers events in real time</li> <li>Contextual – covers context of event</li> <li>Useful in providing additional information of the topic studied.</li> </ul>	<ul style="list-style-type: none"> <li>Time-consuming</li> <li>Selectivity – unless broad coverage</li> <li>Relexivity – event may proceed differently because it is being observed</li> <li>High cost – therefore 1 working week allocated to each acquired site</li> </ul>

Source: Author



## **PART 4:**

# **THE ACQUIRER AND THE CASE STUDIES**



## **CHAPTER 6: ACQUIRER'S INDUSTRY & COMPANY BACKGROUND**

### ***Chapter Objectives:***

- To analyse the acquirer's industry background and company history
- To analyse the North American culture
- To analyse the organisational culture of the acquirer



## **6.0 INTRODUCTION**

The acquirer under study in this thesis is an American first-tier automotive supplier known as First Automotive. The researcher studied four of its European M&As that took place during the 1990s. These M&As displayed differing degrees of post-acquisition success and will be discussed in Chapters 7 to 10. Before looking at the cases, it is imperative to understand the acquirer's industry, its organisational culture, and its nationality.

This chapter has been divided into three sections. The first section analyses the automotive industry, briefly looking at some definitions, recent trends and the competitor analysis for the industry. The second section introduces the reader to the background of First Automotive and covers the history of the firm, its global strategy (European Vision), and its organisational culture. The final section analyses the North American culture covering the national cultural dimensions identified in Chapter 4.

### **6.1 MOTOR INDUSTRY**

The motor industry in the early 21<sup>st</sup> century is looking rather bleak as the economies around the world are hit by recession and war; as a result, this sector is facing serious overcapacity. According to a Key Note Market Report (2001), in terms of volume production, Japan is currently the leading world manufacturer of cars, followed closely by the US. Germany and France are the principal European producers, followed by Spain, the UK and Italy (Table 6.1).

In terms of market size, over 70% of the cars and commercial vehicles in use in the world are located in North America, Western Europe and Japan. However, these areas have reached saturation levels with an average of around two people to each car (Table 6.2). Demand in the rest of the world is rising because of rising prosperity, in countries such as China, Central Europe (Czech Republic, Hungary, and Poland) and Latin America (Mexico, Brazil, Argentina). This surge in demand has resulted in the German, Japanese, French and US OEMs and automotive component manufacturers investing in new factories in Central Europe and Latin America.



Table 6.1: Selected leading world producers of cars and commercial vehicles by volume (number of vehicles produced), 1999

Cars		Commercial vehicles	
Country	Volume	Country	Volume
Japan	8,100,169	US	7,388,116
US	5,636,744	Japan	1,795,307
Germany	5,309,242	Canada	1,422,158
France	2,784,469	Spain	643,681
S. Korea	2,362,735	S. Korea	481,379
Spain	2,208,708	France	395,724
UK	1,786,623	Germany	378,348
Canada	1,626,535	Italy	290,797
Italy	1,410,317	Brazil	242,055
Brazil	1,103,460	Russia	224,737
Russia	955,000	UK	185,905
		India	168,376
		Sweden	108,632

Source: Key Note Autoparts Market Report (2001)

Western European countries collectively account for the highest number of cars in the world and the breakdown of these figures are seen in Table 6.2. In terms of new car registrations, Germany leads the pact with the highest new car registrations with 22.9% of the market and its Volkswagen is the current market leader (Economist, 2002, p. 55).

The downturn in the US economy is beginning to affect world demand for motor vehicles. This is likely to exacerbate the excess in world motor vehicle production capacity and is particularly acute in the developed countries. This is seen in the European market where there is a 30% overcapacity and competition in the market is intensifying. The American firms such as Ford and GM in Europe have been losing hundred of millions of dollars in recent years.

**North America**

The US used to be the world leading manufacturers of cars until the 1980s. Well-known brands, known as the ‘big three’, namely General Motors, Ford and Chrysler dominated volume production and sales. Today, the ‘big three’ in America are facing a bleak future, not only in terms of overseas sales but also on their own ‘turf’. These companies are no longer dominant even at home as increasingly; brands such



as Toyota, Honda and Volkswagen have been gaining popularity among the Americans. Their share of the car market has slipped from 73% in 1996 to 63% 2001 and is predicted to fall below 50% within the next decade (Economist, 2002, p.5). The current problems facing the American market are:

- Excess capacity (3% productivity increases compared with demand growth of 2%);
- Power of unions preventing cuts in output production and capacity;
- Foreign firms have doubled capacity in America from 1.9 million to 4 million since 1990;
- It is forecasted that by 2008, foreign-owned capacity will be 5.4 million units;
- Toyota and Nissan are building new plants. Hyundai is planning to enter the market and BMW, Honda and Mercedes are all expanding their capacity in the US; and
- The target market of these foreign firms is the family-friendly 'light-trucks' segment.



Table 6.2: Number of cars and commercial vehicles in selected countries and regions of the world, 1999

Cars (000)		Commercial Vehicles (000)	Persons per car	Cars (000)		Commercial Vehicles (000)	Persons per car
<b>European Union</b>				<b>Latin America</b>			
<i>Germany</i>	42,423	3,370	1.9	Brazil	12,906	2,561	13.0
Italy	32,000	3,485	1.8	Argentina	5,056	1,551	7.2
UK	27,480	5,609	2.1	Mexico	2,500	3,820	39.0
<i>France</i>	27,391	3,369	2.2	Venezuela	1,845	594	12.8
Spain	16,847	3,789	2.4	Puerto Rico	1,435	243	2.6
The Netherlands	6,120	774	2.6	Chile	1,061	559	14.1
Belgium	4,547	572	2.2	Others	26,590	3,029	N.A.
Austria	4,010	386	2.0	<b>Total</b>	<b>51,393</b>	<b>12,357</b>	<b>N.A.</b>
<i>Sweden</i>	3,890	369	2.3				
Portugal	3,350	1,186	3.0	<b>Asia</b>			
Others	8,204	1,866	N.A.	Japan	51,164	20,558	2.5
<b>Total</b>	<b>176,262</b>	<b>24,775</b>	<b>2.1</b>	South Korea	7,837	3,327	5.9
				Taiwan	5,418	856	4.4
<b>North America</b>				India	4,820	2,610	207.1
<i>US</i>	133,000	81,302	2.1	Malaysia	3,853	995	5.7
Canada	14,147	3,817	2.2	Indonesia	2,900	2,305	72.2
<b>Total</b>	<b>147,147</b>	<b>85,119</b>	<b>2.1</b>	China	2,850	5,200	444.5
				Saudi Arabia	2,689	4,375	7.8
				Thailand	2,045	4,076	29.8
				Others	10,025	5,181	N.A.
				<b>Total</b>	<b>93,601</b>	<b>49,483</b>	<b>37.1</b>
N.A. – not available							
Words in <i>italic</i> highlight the countries understudy in this thesis							
Source: Key Note Autoparts Market Report (2001)							



### **6.1.1 Automotive components industry**

This industry consists of 'all mechanical, electrical, rubber, glass and other ancillary components made and supplied by the in-house parts divisions of car and commercial-vehicle manufacturers' (Key Note Autoparts, 2001, p.2). This industry is divided into two markets: 1) the original equipment market (OE) and 2) the aftermarket (repairs and maintenance).

Michael Porter (1979) provides a useful approach to summarise the competitive arena, which he argues consist of competing organisations jockeying for position in an environment determined by a number of outside forces. These forces are the bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services, and the threat of new entrants (Figure 6.1). Overall, the automotive components market has become a global industry in recent years and the levels of competition is intensifying as OEMs demand high quality products at low prices.

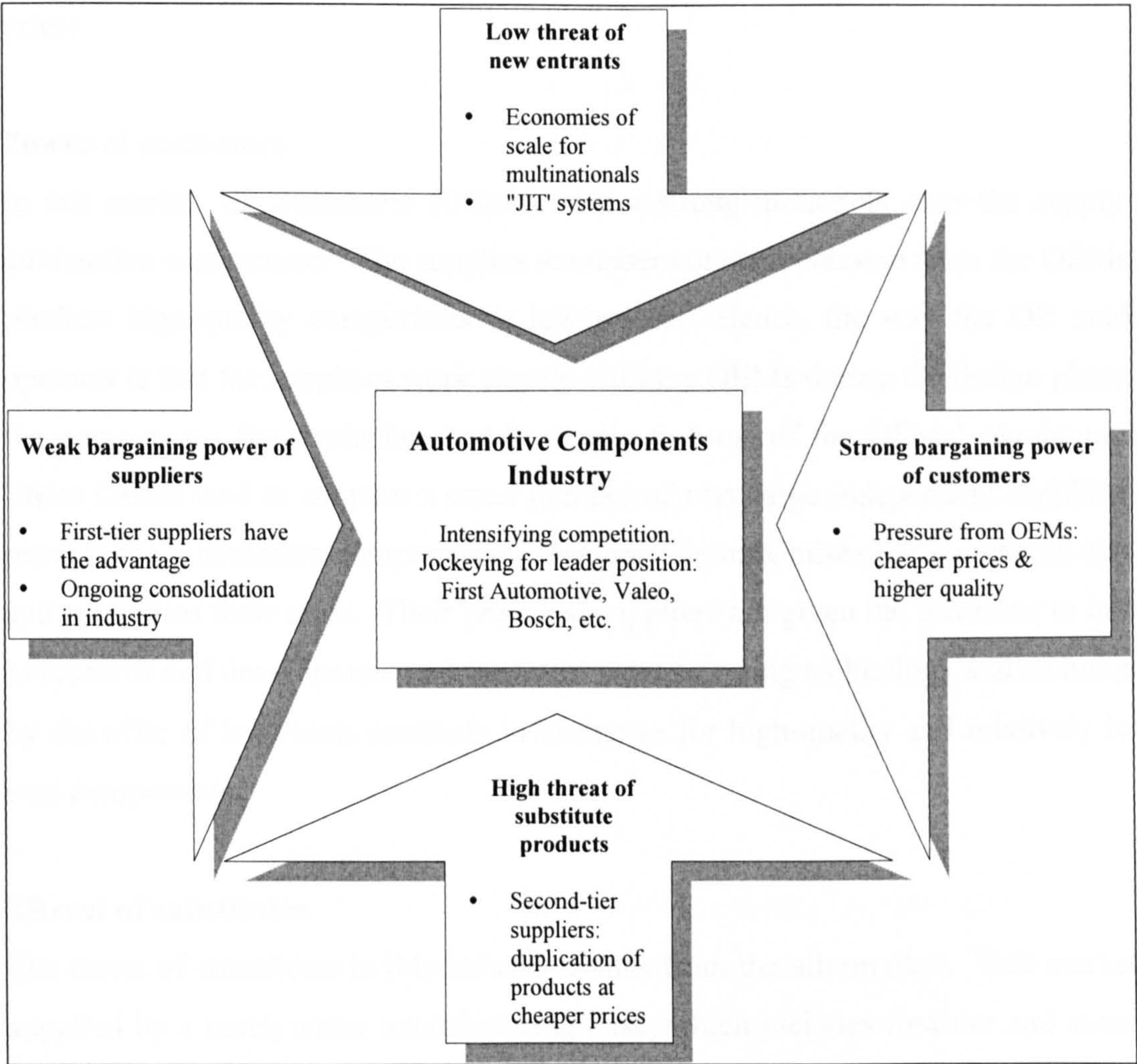
#### **Power of suppliers**

The automotive components industry is now a global industry. Multinational first-tier suppliers produce a similar range of parts for OEMs in different countries. There is intense competition and the threat of future lower return on investments for current suppliers. The high cost of developing new models is leading to greater consolidation and cooperation among the world's leading manufacturers of cars and commercial vehicles. Consolidation has been occurring in this industry in terms of M&A with rival companies to ensure that they gain or maintain the size of capital to invest in the technical developments necessary to compete in domestic and global markets.

Therefore, buying power will be concentrated among fewer companies in which they have stated they wanted to reduce the number of their suppliers. First-tier multinationals have an advantage in power in the industry as their products are considered by original equipment manufacturers (OEMs) to be of the highest quality and are delivered according to rigorous schedules.



Figure 6.1: Porter’s Competitor Analysis for the automotive components industry



Source: Author, based on Key Note Autoparts Report (2001)

**Threat of new entrants**

Large, first-tier automotive components manufacturers supply the OE market. Most of them are multinational companies with factories located in various countries. These companies are able to draw on these resources and transfer parts anywhere in the world as required. The standardisation of their platforms and parts makes it easier for these multinationals to supply the same parts, with the same quality, from their lowest-cost production plants. Many of the components plants are usually clustered around, or located close to, the main assembly factories. This simplifies the supply chain and ensures just-in-time deliveries and allows on-site stockholding to be kept to the minimum. Therefore, the threat of new entrants into this market is



relatively weak as there is a high pressure to produce high quality products at low prices.

### **Power of customers**

In this market, the customers (OEMs) have a strong monopoly over the supply of automotive components. The suppliers are under constant pressure from the OEMs to produce high-quality components at low prices. Hence, the way the OE market operates is that the suppliers work closely with the OEMs during the design phase of the components for particular models supply to most of the OEMs' requirements. These OEMs tend to contract a small number of very large independent suppliers to provide the automotive components. This practice maximises the volume of output and minimises their costs. Their preferred suppliers are given the incentive to invest in research and development and the latest manufacturing technology and techniques by the offer of long-term contracts in exchange for high-quality and relatively low-cost components.

### **Threat of substitutes**

The threat of substitutes in this industry comes from the aftermarket. This market is supplied by a much wider manufacturing base, which includes first-tier and second-tier manufacturers. These companies supply replacement components, made according to OE designs and specifications. They provide cheaper alternatives to the original parts made by the first-tier multinationals. Hence, the second-tier suppliers are considered very strong competitors in the aftermarket. However, the quality of the duplicates is highly variable as the components are not subjected to stringent quality standards and testing. It is important to understand this market because when First Automotive acquired French Security, its main business was in the aftermarket. However, it has since disposed of this section of its business and therefore, the characteristics of this market are not looked at in as detailed a way as the OE market in this chapter.



## **The US and Canada**

The automotive component manufacturers in North America have totally restructured their operations in recent years to make the industry more competitive with the Japanese imports and to increase their penetration in overseas markets. The OEMS have disposed of most of their automotive components manufacturing business. The OEMs have decided to outsource the majority of their requirements to specialist suppliers, including their former subsidiaries. These businesses now supply both their ex-parent companies and other OEMs in their home country and overseas.

The 'invasion' of the Japanese competitors in the US has set new standards for quality improvements across the whole of the US automotive components industry. Another important development in this industry is that it has adopted a more global outlook and is positioning itself to take advantage of the fast-growing markets in Eastern Europe, Asia and Latin America.

### **6.1.2 Vehicle security market**

This market consists of physical and electronic security devices fitted in motor vehicles including cars, motorcycles, light and heavy commercial vehicles and others. The products are designed to prevent or deter theft of or from the vehicle. This market is divided mainly into two sectors:

- Physical security products (vehicle locks; mechanical immobilisers; and security marking)
- Electronic security products (tracking systems; alarms; electronic immobilisers; combined alarm/immobilisers)

This market boomed in the 1980s and the first half of the 1990s with the rise of vehicle thefts in US and Europe. Many companies entered this lucrative market as a result. However, since then, the market has matured and companies either have left the market or have been taken over by a competitor. The current trend in this market is of consolidation. This market's demand is highly dependent on the trends of the motor industry as a whole. There are strengths, weaknesses, opportunities and threats in this market and these have been summarised into Table 6.3. Although this



is a mature market, there are still many opportunities, in terms of continuous innovation for new products that will tighten the security of vehicles. However, there are also many threats as this market is highly dependent on motor industry trends.

Table 6.3: SWOT analysis for vehicle security market

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"><li>▪ Continuous need for innovation, as professional thieves find ways to combat existing security devices</li><li>▪ Security is one of the main selling points for new cars</li><li>▪ The presence of high-quality security device adds to resale value of a car</li></ul>	<ul style="list-style-type: none"><li>▪ Car owners feel that their vehicles are too old to justify high expenditure on security</li><li>▪ Many aftermarket products require professional fitting which adds to the cost</li></ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"><li>▪ Many older cars still have no security devices fitted</li><li>▪ New products: safe anti-hijack systems and airbag locks</li><li>▪ Insurance costs are rising and expected to continue to rise. Good security systems reduce premiums</li></ul>	<ul style="list-style-type: none"><li>▪ Strong risk that the volume of car production will decrease due to downturn in many economies</li><li>▪ Suppliers of components are facing strong competition and margins are being squeezed</li><li>▪ Political pressure in some countries to ease road congestion, reduce pollution and improve public transport</li><li>▪ Any increase in fuel prices will discourage vehicle ownership</li></ul>

Source: Based on Key Note Vehicle Security Market Report (2001)

6.1.3 Challenges ahead

According to reports in The Economist 2003, the future of the motor industry is expected to be bleak in developed nations. Volume production is expected to decrease and consolidation is expected to take place. It has been predicted by a report by PricewaterhouseCoopers that the consolidation in the motor industry will end up with seven major car manufacturers in the world. It also predicted that the number of component suppliers to the motor industry would fall from 800 to 30 companies.



As competition for sales in the industry intensifies, and the cost of developing new models increases, it would become impossible for manufacturers to absorb these costs and survive profitably. Therefore, it would be inevitable that there will be rationalisation in the industry, where major multinational groups in the US, Japan, Germany and France will become bigger by merging or acquiring their less successful or financially overstretched competitors.

This will result in a further concentration of power in the hands of a small number of very large motor corporations, which operate globally. This has ramifications for the automotive components industry. Fewer first-tier suppliers are likely to be wanted in the future. Also, the increasing standardisation of parts, which are commonly used by the whole range of models produced by each motor corporation, means that companies have access to automotive components made in plants anywhere in the world.

Global sourcing in this industry will become common, subject to logistical limitations of transporting many parts and assemblies over long distances and ensuring that they arrive just in time for final assembly. The disadvantage of this is that disruptions to the supply chain would be disastrous for the continuity of production. Therefore, there is some degree of protection to those suppliers of components that operate in the immediate vicinity of the assembly plant.

As a domino effect, the demand in the vehicle security markets will mirror vehicle production volume and this is expected to decrease until the world economy improves.

## **6.2 ACQUIRING COMPANY'S BACKGROUND**

First Automotive is part of a large American multinational corporation that is in the business of supplying OEMs with innovative components, systems, and module solutions. A visionary founder set up this multinational in the US at the beginning of the twentieth century. Today, it has strong employment of 200,000 in 47 countries with 197 manufacturing facilities, 31 technical centres and 43 joint-ventures. They



manufacture products ranging from computer chips to smart sensors to telecommunications equipment and software algorithms to mechanical components. There are three main divisions in this multinational, namely the electronics and mobile communications sector, the safety, thermal and electrical architecture sector; and the dynamics and propulsion sector (Table 6.4).

Table 6.4: First Automotive parent company’s product sectors and areas of business

Product sectors/divisions	Areas of business	Sales, 2000	% of total business
Dynamics and Propulsion Sector	Largest sector, provides energy and engine management systems, chassis control systems and steering products	USD 14.3 billion	48.3
Safety, Thermal and Electrical Architecture Sector	Offers a wide range of products relating to the vehicle interior, powertrain cooling systems and climate control systems as well as wiring harnesses and connectors for electrical power and signal distribution.	USD 10.0 billion	33.7
<i>Electronics and Mobile Communications sector</i>	Supplies various electronic products, as well as audio and communication systems for vehicles.	USD 5.3 billion	18.0
TOTAL		USD 29.6 billion	100.0

Source: First Automotive Company Reports

This research study focused on the electronics and mobile communications division of the multinational and four of its M&As into Europe during the 1990s.

### 6.2.1 Background of First Automotive

First Automotive began as a radio division of a huge American car manufacturer in the early 20<sup>th</sup> century. It has since expanded into other countries, which began in the 1970s into Asia-Pacific and South American regions. Today, it has grown into a global automotive systems supplier with a 30,000 global workforce serving main car manufacturers such as BMW, Daimler Chrysler, Toyota, General Motors and others.

It offers a wide range of innovative safety, communication, entertainment and electronics integration technologies for vehicular transportation. There are five



product lines, namely, integrated system electronics, powertrain, body and chassis electronics, mobile multimedia, and integrated body systems (Table 6.5).

Table 6.5: First Automotive product lines

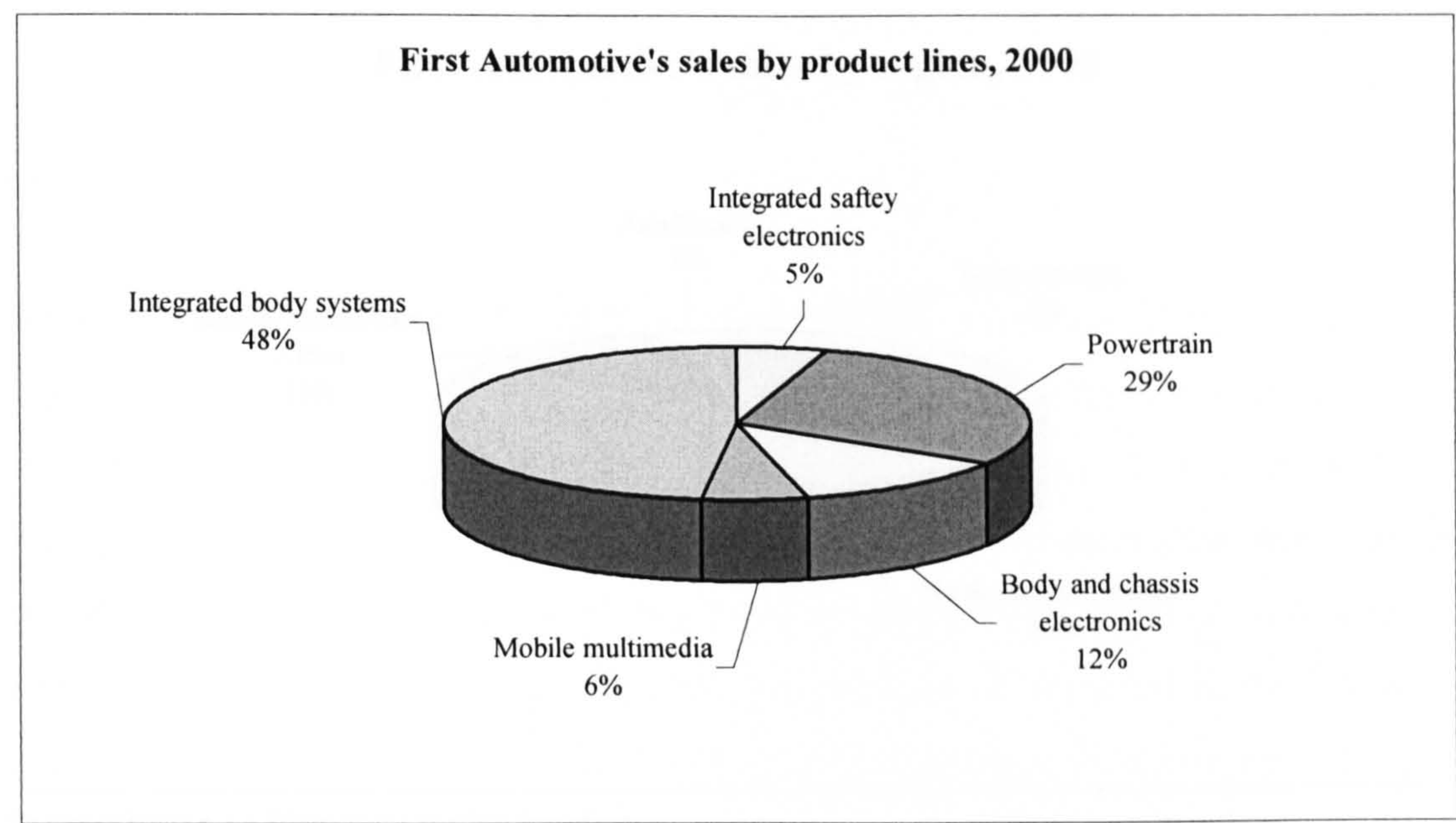
Product line	Products	Acquired product line
Integrated safety electronics	Forewarn collision warning systems; Restraint systems electronics	
Powertrain	Engine management: systems controllers; Power modules, Pressure sensors; Ignition electronics	Swedish Consultancy
Body & chassis electronics	Antilock braking electronics; Body electronics; Security electronics; Steering electronic control; Suspension electronic control	German Security; French Security
Mobile multimedia	Aftermarket products and services; Mobile multimedia system solutions; Rear seat entertainment; etc.	Swedish Consultancy; German Antenna
Integrated body systems	Amplifiers; Antenna systems; Audio systems; Climate controllers; Speakers; etc.	German Antenna

Source: Based on First Automotive brochures and interviews

The first two M&As for First Automotive into Europe were those of German Security and French Security. These M&As were horizontal (*domain strengthening*) in nature as they fitted into its ‘body and chassis’ product line. The third acquisition was Swedish Consultancy, classified as a *domain exploration* M&A because although it was in the same industry as First Automotive, it is a consultancy firm in engine systems and ignition electronics, part of the powertrain product line (29% of total sales). Until this M&A took place, First Automotive was not involved in any consultancy business in the industry. The fourth acquisition was German Antenna, this M&A represented an acquisition of superior technology in antenna systems. When this M&A took place, First Automotive was acquiring an unique patented technology that was only manufactured in German Antenna. Therefore it was classified as a *domain extension* M&A, as the technology fitted into its integrated body systems product line. This product line currently generates the highest sales share with 48% for the division (Figure 6.2).



Figure 6.2: First Automotive’s distribution of sales by product lines



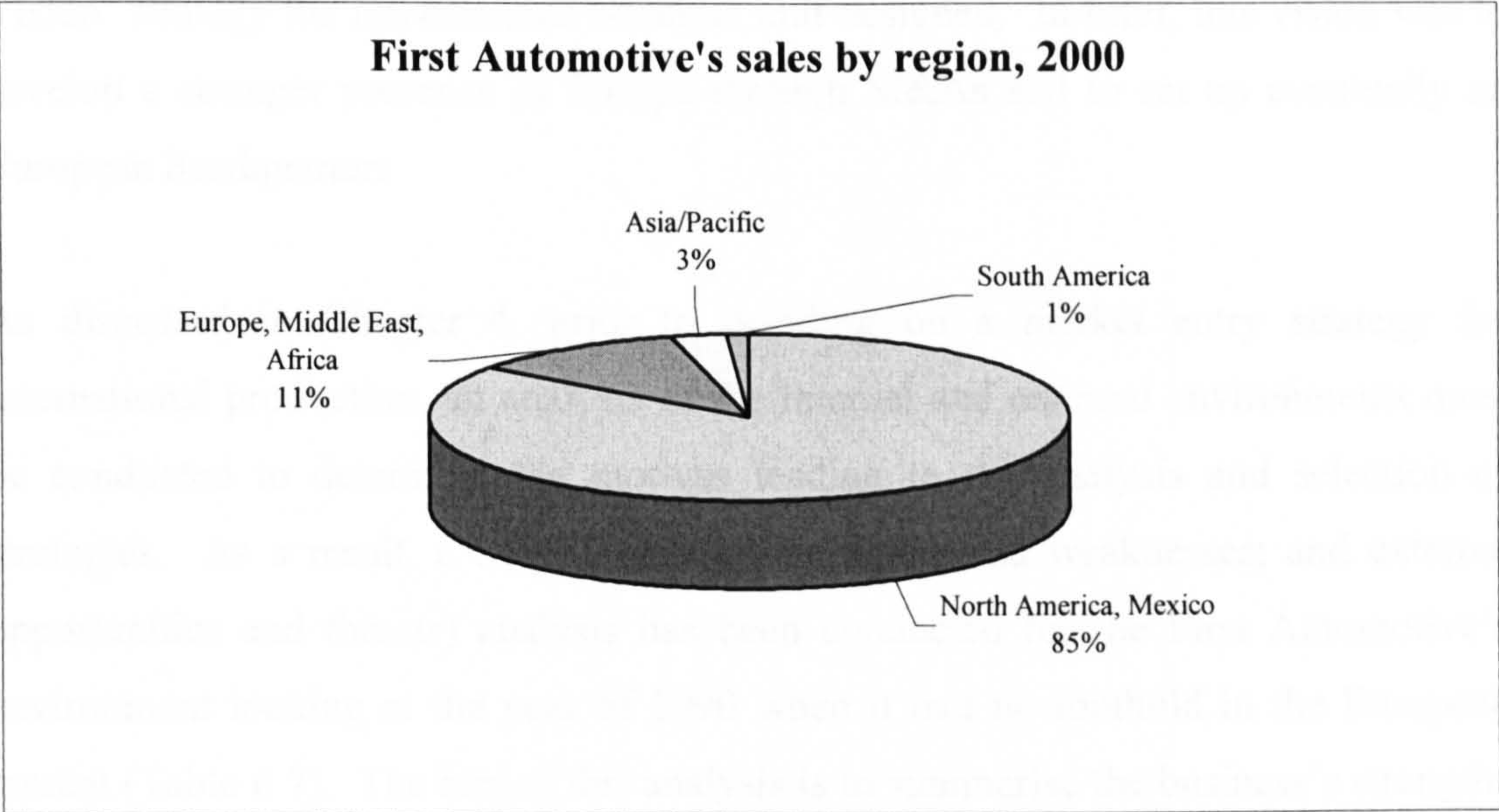
Source: Based on First Automotive brochures

Eighty-five per cent of its total components sales are generated from the North America and Mexico region (Figure 6.3). The reason for this uneven distribution of sales is that First Automotive is a spin-off division of a well-known American motor company. Prior to the spin off, 100% of their sales were generated solely from its parent company. Even now that it is an independent company listed on NASDAQ, most of its sales are still generated from its ex-parent company. This is an issue, which the top management is trying to address.

There are strategies in place to try to decrease the dependency of sales in North America through venturing overseas by either internal development or external development strategies. It has utilised a combination of internal development, joint-ventures and acquisitions in various countries depending on the government and legal laws relating to foreign ownership.



Figure 6.3: First Automotive’s sales distribution by region, 2000



Source: Based on First Automotive brochures

For example, in the European region, all its five manufacturing sites were a result of the M&As strategy (Table 6.6). This was part of an internationalisation strategy termed as the ‘*European Vision*’ by the management. As part of this strategy, First Automotive first forayed into Europe with four M&As during the 1990s. This research study looks at these four early cases. Three of these M&As were in manufacturing (German Security, French Security and German Antenna) and the fourth is an engineering centre in Sweden, Swedish Consultancy.

Table 6.6: First Automotive’s global presence

Regions	Engineering/technical centres	Manufacturing sites	Customer centres/sales offices
US/Mexico	10	6	3
South America	3	1	2
Europe	18	5	9
Asia/Pacific	6	4	5
Total	37	16	19

Source: Based on First Automotive brochures

6.2.2 European vision in the 1990s

The vision for First Automotive in the 1990s was to begin decreasing its dependency of its sales from its ex-parent company and increase its sales from other regions and



solicit sales from the European OEMs. Part of this vision included the 'European Vision' strategy the international business unit designed. In brief, this vision was to develop a stronger presence in Europe through M&As and to set up eventually an European headquarters.

As discussed in Chapter 4, prior to deciding on a market entry strategy for international production, an analysis of the internal and external environments must be conducted to determine the motives leading to the analysis and selection of strategies. As a result, a SWOT (internal strengths and weaknesses; and external opportunities and threats) analysis has been conducted for the First Automotive's environment looking at the year of 1990 when it had no foothold in the European market (Table 6.7). The aim of this analysis is to summarise the business's strengths and weaknesses in relation to the competition and highlight external factors that are influencing the market's performance.

### **SWOT analysis**

The internal *strengths* of First Automotive in the early 1990s in terms of *marketing* was that it had a recognised quality product with vehicle system capabilities and had the marketing methodology to pass on savings to its customer. This strength is derived from its *operations* - low cost manufacturing and economies of scale – setting up manufacturing facilities in the 1970s and 1980s, in South America and Asia/Pacific where labour costs were low. In terms of *technology and product development*, it had the technical expertise and access to worldwide technology and components. The other strength was that it had a strong financial position to expand worldwide.



Table 6.7: SWOT grid for First Automotive as of 1990

<b>STRENGTHS of Company</b>	<b>WEAKNESSES of Company</b>
<ul style="list-style-type: none"><li>▪ Vehicle system capabilities</li><li>▪ Recognised quality product</li><li>▪ Low cost manufacturing</li><li>▪ Worldwide access to technology &amp; components</li><li>▪ Technical expertise</li><li>▪ Marketing methodology</li><li>▪ Strong financial position</li></ul>	<ul style="list-style-type: none"><li>▪ Majority of sales generated from parent motor company (now ex-parent), one of the ‘Big three’ American OEMs</li><li>▪ Image was vague in Europe</li><li>▪ Poor reputation with some European OEMs</li><li>▪ No foothold in Europe</li><li>▪ Lack of strong technical base in Europe</li><li>▪ Customer requirements based in Europe</li><li>▪ Narrow customer base in Europe</li><li>▪ Organisation in Europe not clearly defined</li><li>▪ Lack of decision responsibility in Europe</li></ul>
<b>OPPORTUNITIES in industry</b>	<b>THREATS in industry</b>
<ul style="list-style-type: none"><li>▪ Globalisation of the industry “was in full swing”</li><li>▪ Single European market (1992)</li><li>▪ High technology and abundant skills in Europe</li><li>▪ Potential Business growth in Europe reduce over reliance on North American market sales</li><li>▪ Electronic management systems/engine management systems</li><li>▪ Provide system support to partners</li><li>▪ Growing vehicle security market and pressure from insurance companies</li></ul>	<ul style="list-style-type: none"><li>▪ Motor industry was changing: ‘Big three’ American OEMS were losing market share to the Japanese and European OEMs in home market</li><li>▪ New source of competition due to growth market in body electronics even from defence industry</li><li>▪ Lack of effective strategy/structure</li><li>▪ Failure to integrate successfully in Europe</li><li>▪ Failure to change European OEMs’ attitude to First Automotive’s products</li></ul>

Source: Author, based on interviews conducted and annual reports obtained



However, there were several internal *weaknesses* of First Automotive, which had to be addressed, and which were the triggers behind the European acquisitions. Although it had a presence in overseas markets, the majority of its sales were in the North American region. Although it had a recognised quality product in some parts of the world, this image or branding was not recognised or was vague in Europe. This is because prior to the 1990s, First Automotive did not have a strong market positioning in Europe and had a poor reputation for technology among the European original equipment manufacturers (OEMs). European OEMs in general did not value the level of technology of American products. To worsen matters, the firm did not have any physical presence in Europe in terms of a management structure or manufacturing facilities. This was a weakness, as the European OEMs prefer to deal with European suppliers or European-based suppliers. For example, Carr et al. (1994) found in their study that the German OEM-supplier relationship was more intimate than in the UK. This is because the managers have a deeper knowledge of the industry and better long-term relations with suppliers and customers.

The other major weakness was that First Automotive comes from a long history of serving its ex-parent company, a world-leading automotive manufacturer and did not have the experience of soliciting customers because it was not necessary. Table 6.8 highlights the differences between what First Automotive is used to in serving customers and the type of customers that it would have to deal with if it was to enter Europe. This meant that they also did not have the experience of adapting their products to different customers' requirements. The third major weakness is that First Automotive did not have any co-ordinated management presence based in Europe. A European headquarters was not set up until 1996. Hence, there was a lack of decision responsibility in the region.



Table 6.8: Differences between First Automotive American customers and general European customers in the automotive industry

First Automotive North American market	Potential European market
▪ One big customer – ex-parent company	▪ Many customers, require close relationships with suppliers
▪ Not as aggressive with costs – no need for price promotions etc.	▪ Very aggressive on quality and costs
▪ No adaptation of products – serve only one OEM	▪ Demand adaptation of products – different OEMs
▪ North America: All states seen as one country hence production in another state is seen as local	▪ Europe: Many countries – OEMs require ‘local’ producers in each country to simplify and shorten supply chain
▪ Business conducted in English throughout the US. Hence, no language expertise	▪ Business conducted in many European languages – foreign OEMs in Europe are expected to conduct business in the local language

Source: Author, based on interviews

There were several *opportunities* First Automotive faced during the 1990s. Firstly, the globalisation of the automobile industry was in “full swing” and these provided many opportunities for the supply-base to globalise too.

*“The globalisation of the automobile industry was in full swing with the Japanese OEMs coming into US. The American OEMs were globally expanding into Europe, building the plants in Europe and Eastern Europe, Poland particularly. They were also growing in South America. There was a tremendous need for the supply-base to follow the OEMs. So we expanded to support our traditional customers as they expanded and vice versa.”*  
General Director of International Business Unit (retired), US Headquarters

Secondly, there was the impending Single European Market in 1992 and the future benefits that ensued from the regional grouping. Furthermore, Europe was gaining presence and business in the region was steadily growing. Therefore, part of European Vision, was if First Automotive acquired advanced technology or market leading companies in Europe, it might be able to ‘shake off’ its poor and vague image and reputation in Europe by associating with local producers while maintaining the localness of the companies to the customers.

The **threats** in the industry were the evident shifts of motor vehicle sales as the European and Japanese competitors slowly gained market share from the ‘Big three’



American OEMs in the American domestic market and worldwide. In addition, many of its major competitors such as Siemens and Bosch were based in Europe and were expanding rapidly into the US and in Europe. The other threat was that the defence sector was entering into the body electronics market and hence increasing the level of competition to drive down costs in the industry. Another threat was the difficulty of gaining trust and building relationships with the European OEMs. Many of the European customers wanted local suppliers and therefore First Automotive acquired (Table 6.2) leading local suppliers in the respective growth areas. The other threat that faced First Automotive was that it did not understand the complexities of working in and managing the diverse European cultures.

Based on this SWOT analysis, it was imperative for First Automotive to begin increasing its presence in Europe to keep a 'close-eye' on its competitors, gain new customers, tap into the market growth sectors, and generate potential cost savings from the European Union and the impending single currency. The management in First Automotive decided that the best way to enter into Europe was to acquire local market leaders because there were just too many internal weaknesses and external threats to expand through organic growth or internal development. The motives for the acquisitions in Europe are discussed next.

### **Acquisition motives**

Dunning (1993) suggests that the four principal motives for foreign acquisitions are resource-seeking; market access; efficiency; and strategic asset-or-new capability-seeking. First Automotive's general motives for acquiring into Europe were to gain new market access and access the technology skills in the biggest automotive market outside America, as part of its globalisation strategy. The specific motives were:

- *Aggressive growth strategy.* It wanted to grow and consolidate its global position through acquisitions and internal growth as seen in the following quote.

*"We had a very aggressive growth strategy for the division – it comprised of two parts, both growth by acquisitions and by internally. This was the corporate strategy and M&A was instrumental for the global growth for the division."*

General Director of International Business Unit (retired), First Automotive US HQ



The internal growth strategy consisted of “*new products to existing customers*” and the acquisition strategy was “*old products for new customers*”.

- *To be close to customers.* It also wanted to gain proximity to the European customers and gain new customers to decrease its reliance on its US customer base.
- *Purchase customer relationships.* The customers in Europe are unique in that they prefer local automotive suppliers, yet they want their suppliers to be global (as a sense of security for future business). Hence, it was necessary for First Automotive buy local suppliers because of the already established customer relationships the acquired firms have with the local OEMs, especially in Germany and France who were hosts to major European car manufacturers. This is seen in the following quote.

*“It was clear they (the US management) wanted to grow in Europe on their own, grow capabilities, grow through acquisitions to gain customer contact and when First Automotive bought acquisitions, they of course bought technology, but mainly for customer contact...French Security for the French market...German Security and German Antenna for the German market...Swedish Consultancy was unique as it is a consulting company and we bought it for its technology and skills in mobile multimedia.”*

Human Resources Director, First Automotive European HQ

- *Improve reputation.* To rebuild its brand image in Europe and improve its reputation among the European OEMs. Therefore, it bought companies that had well-developed brand images and established customer relationships among the main local OEMs.
- *Gain technology and skills.* European technology, especially from Germany is considered to be superior (Carr et al., 1994). Buying German firms provided instant access to such technology and local skills as seen in the next quote.

*“Europe had technology leaders such as Mercedes and Daimler Chrysler, you needed to be here to also make business with them in the US...”*

Human Resources Director, First Automotive European HQ



- *Inject corporate entrepreneurship.* First Automotive was a large bureaucratic company and it wanted to gain the characteristics of an entrepreneurial company to benefit from being quick, responsive and innovative for the customers.

*“We were not small nimble, quick or responsive. Those were the characteristics we desired of, and we saw those capabilities in the acquisitions.”*

General Director of International Business Unit (retired), First Automotive US HQ

The specific individual acquisition motives from both the acquirer and the acquired firms' points of view are discussed in the respective case studies (Chapter 7 to 10).

The reasons the management chose M&As as market entry strategy were twofold. Firstly, First Automotive wanted *instant access* to customer relationships, a crucial requirement to have access to local OEMs in France, Germany and Sweden. Secondly, back then in the early 1990s, First Automotive had very *little experience* of the European market because it lacked physical presence, therefore, it was crucial to acquire instant local knowledge and language of the country. As explained earlier, First Automotive was not experienced in soliciting new customers, and needed instant access to such knowledge in order to function immediately in the competitive European market.

In order to understand the difficulties encountered in the European M&As (Chapters 7-10), it is essential to distinguish the organisational culture of First Automotive according to the perceptions of its own employees, documents or brochures, and the perceptions of the acquired employees.

### **6.2.3 Organisational culture: *Passion for excellence***

The organisational culture of First Automotive follows closely to that of a typical large multinational company. It strives to achieve common systems across all its divisions and subsidiaries in terms of business processes and practise. It strongly believes that common internal business processes and practices, like quality, are givens. There is no compromise as it strives to provide high-standards of quality at



low costs to customers. The chairperson of the company, seen in the following quote, best describes the organisational culture of the firm:

*“It’s a culture that eliminates the kind of thinking that says one division or one plant has to have different internal practices for the sake of being different. It is a culture where **common is good** – and when I say common, for the most part, I mean all internal business processes that are invisible to the customer should be identical.”*

Chairman, CEO and President of First Automotive, extracted from company brochures

The organisational culture can be summarised as one that is process-oriented, employee-oriented, tightly controlled and pragmatic in nature. Figure 6.4 displays the values of the company that are printed in employee handbooks and displayed on posters hung around the company headquarters and at the entrances of subsidiaries. It is also interesting to note the following quote by the general director when asked to describe the organisational culture of First Automotive:

*“I would describe our organisational culture in the early 1990s as large, bureaucratic, slow decision process and procedures-bound.”*

General Director of International Business Unit (retired), First Automotive US HQ

Figure 6.4: First Automotive’s organisational culture of excellence



Source: Based on First Automotive employee handbooks (1998 to 2001)



An in-depth analysis of the organisational culture is conducted next according to the author's multi-dimensional cultural framework (seen in Chapter 4).

### **Goal and value alignment: Customer-driven**

The goals and values in First Automotive are explicitly written-down and communicated to all employees in the form of handbooks, brochures and posters. There are four principles that are shared among the employees, namely customer enthusiasm, trust in relationships, integrity and responsibility to society. In order to achieve these, the company functions follow the following five objectives. These are customer satisfaction, supplier of component excellence, growth, increase stakeholder value and creating an environment for employees to contribute and excel (Table 6.9).

In all its printed materials, it comes clearly across that First Automotive's main focus is on satisfying its customers. The corporate vision is to be the best supplier for their customers. This pursuit of customer satisfaction is through technology, quality, cost, responsiveness and attitude. They view customers at all levels of their organisation and in all functions of their organisation. They treat every contact made, service provided, and product received by the customer as highly critical. This practice is evident from the following quote taken from one of their brochures provided to new employees and customers:

*"Our customers' interests always come first. We are committed to products, services, business practices and an attitude that create customer enthusiasm. This is the foundation of our security."*

Taken from a company brochure provided to customers



Table 6.9: First Automotive objectives

Objectives	Customer	Capability	Growth	Value	People
<b>Strategies</b>	<ul style="list-style-type: none"><li>▪ Treat every customer as our best and most valued customer</li><li>▪ Become passionately customer-focused – listen and respond quickly</li><li>▪ Rigorously apply lean enterprise tool and value stream mapping</li><li>▪ Consistently used common systems across company</li><li>▪ Enhance technology/value proposition through global sourcing and supplier development consistent with lean principles</li><li>▪ Develop and offer market leading-products and process technologies that exceed customer satisfaction</li></ul>	<ul style="list-style-type: none"><li>▪ Continually optimise engineering footprint and further develop strategic manufacturing footprint to lead in speed, innovation, competence and cost</li><li>▪ Leverage full potential of new information management technology worldwide</li><li>▪ Exceed competitive benchmarks for price/cost, quality and technology for each component and/or system</li><li>▪ Improve R&amp;D performance to achieve technical superiority</li></ul>	<ul style="list-style-type: none"><li>▪ Exceed customer expectations while building new relationships</li><li>▪ Strengthen global customer networks</li><li>▪ Leverage global resources and presence</li><li>▪ Make strategic alliances consistent with financial objectives</li><li>▪ Grow aftermarket presence</li></ul>	<ul style="list-style-type: none"><li>▪ Focus on product portfolio and resources on growth</li><li>▪ Execute business plan achieving target levels for net income, return on net assets and revenue growth</li><li>▪ Be common in all internal business processes</li></ul>	<ul style="list-style-type: none"><li>▪ Eliminate the health and safety risks of every employee</li><li>▪ Foster a cooperative environment at all levels of the organisation through regular information sharing</li><li>▪ Empower all employees with more accountability and reward performance for goal attainment</li><li>▪ Assure all employees are trained to develop and excel</li><li>▪ Work collaboratively with employees and unions to become more competitive</li></ul>

Source: Based on First Automotive brochures



Although the company plans its business on a five-term basis, they still drive single-mindedly for short-term profits by insisting that quarterly results of all subsidiaries are presented to the headquarters. When asked to describe the differences between the Americans and Germans in terms of goal alignment, a German manager in German Antenna mentioned this:

*“For the Americans, the next quarter is more or less on the horizon, what to watch for and try to achieve and so on. Germans think for more than one year...something that a North American businessman would not think of.”*

Finance Manager, German Antenna

This is of typical American management style as part of their focus is also to increase shareholder value through revenue growth and superior returns and to create an environment where every employee can contribute and excel. This fits into Hofstede's view of long-termism (1994), where the Americans scored lowly on this dimension, indicating a preference to compare the past and present performance results.

Therefore, from the various data collection resources, the author has assigned scores to the different organisation manifestations that define the goal and value alignment dimension. First Automotive scored 4.00 reflecting characteristics of a large multinational company that is bureaucratic, procedures-bound with a shorter-term view of results as compared to a smaller more entrepreneurial company (Appendix 4).

### **Structure and controls: Matrix, centralised and tightly controlled**

First Automotive has a classical matrix structure (Bartlett and Ghoshal, 1990) that runs and measures its business on competency. This structure strives for interdependency between competencies and this is reflected in the way they conduct their business on a teamwork basis. However, because it is a matrix structure there is always “systematic conflict” among management and employees due to double reporting and conflicts between two or three people in charge of the same area. This



is due to lack of clarity of role definition and responsibility (Bartlett and Ghoshal, 1990).

The degree of formality of relationships between First Automotive and its acquired subsidiaries is quite high. It tightly controls its acquired units through the utilisation of budget controls. This useful tool provides concrete objectives against which performance is measured. The company's culture is seen in its emphasis on budgets, financial controls, and reporting procedures that reflects output control. Being a manufacturing company where the number of product units produced a day is crucial to the demand and supply relationship, the company culture strongly emphasises the importance of punctuality in meetings, conferences, and especially on the production floor where time-cards are used to monitor production workers.

All of First Automotive foreign subsidiaries work to common systems (Table 6.9). This practice allows considerable process scale economies, and enables rule by standardised procedures manuals to be achieved anywhere in the world. It highly values integrity in its employees and expects everyone to comply fully with the spirit of the laws, regulations and ethical principles that govern them. It is a company that is very process-oriented, dominated by technical and bureaucratic routines (Hofstede, 1980) as seen in the next quote:

*"...our company is very process-oriented and procedure-oriented and very stubborn in this respect in that we do not allow these processes to be adapted to cultural differences."*

Human Resources Director, First Automotive European HQ

Policies and job descriptions are written down and standardised so that anyone can perform them worldwide. The goal is to have common systems. This standardisation allows individuals to move easily in and out of jobs/organisations and guarantees their career mobility. First Automotive believes that rules and procedures are necessary to assure that all people are treated equally as seen in the next quote:

*"...we are a global company and we want people treated in Asia the same way in America and in Europe..."*

Human Resources Director, First Automotive European HQ



The above quote corresponds with what Trompenaars (1993) has termed *universalism*. This shows that it has an employee-oriented culture that takes care of its employees and makes sure that there is no discrimination in any of its foreign subsidiaries.

Although there are many standardised procedures, these are changed quickly as seen in the next quote displaying a pragmatic culture that allows a degree of flexibility in its working environment:

*"First Automotive is very flexible and very open, very flexible it means you change procedures from one day to another, the US is just doing it, forget it is happening."*

Human Resources Director, First Automotive European HQ

However, the acquired subsidiaries challenged this quote. Many of the interviewees mentioned that that First Automotive was not pragmatic in nature and instead was very rigid when it comes to implementing new systems and procedures. This is discussed later on in the individual case studies.

Therefore, from the various data collection resources, the author has assigned scores to the different organisation manifestations that define the structures and controls dimension (Appendix 5). First Automotive scored 9.17, reflecting characteristics of a centralised organisation with high standardisation of procedures and rules which are strictly followed.

### **Leadership orientation: Democratic**

Even though within each company site visited in Europe and the US there is a sense of participative management style, it is highly authoritarian between the parent company and its subsidiaries around the world. There is a strong parental 'top-down' approach. This conclusion was drawn from the following quote.

*"...disciplinary actions were threatened against us if we did not follow their orders...it was management by fear during a couple of years..."*

Finance Manager, Swedish Consultancy



In First Automotive, strategic and major operational decisions are centralised. Although a top-down style of decision-making is strongly evident, bottom-up contributions are encouraged wherever possible. In Table 6.9, it states that the First Automotive strives to provide more accountability to its employees. However, from the interviewees conducted at all four acquired subsidiaries, almost all of the management and employees said that decisions were made at the top and passed down to them. Decisions are made slowly as a result because of the size of the company and also because they have to spend more time ‘selling these decisions’, explaining why, what, and how, and gathering support. Inevitably, implementation takes longer.

Through observations at the US headquarters and at the European headquarters, there were slight differences in the office atmosphere. This conclusion was gathered from observing the appearance and dress codes of the management and employees at the respective sites. In the US headquarters site, the researcher noticed that all employees were more casually dressed than their counterparts in the European headquarters were. There was a sense of higher levels of informality in terms of dress code and verbal behaviour in the US. Most employees in the US headquarters were dressed in casual clothes, whereas in the European headquarters, most employees were in formal suits.

Hence, a summary of this dimension is seen in Appendix 6. The overall mean of several organisation manifestations variables were calculated and First Automotive scored 4.78, reflecting characteristics of a democratic towards participative, open-door and less formal management style.

### **Communication styles: Open & informal**

There was a noticeable difference between these two headquarter sites in the way the lower-level employees addressed their bosses. In the US headquarters, everybody was on the first-name basis, whereas in the European headquarters, the title was used before the surname to address their bosses. This difference boils down to national cultural differences between Germany and the US that are elaborated later on. This



was evident in the way the personal assistants introduced the researcher to their bosses. It was also evident through telephone conversations with the finance director and other personnel across the Atlantic. In the American headquarters, the communication style of First Automotive was more open, personal and on a first name basis. However, in order to speak to the directors in the company, appointments had to be made with their personal assistants at least a week in advance.

From the interviews with the directors based in Europe, the communication style between parent company and subsidiaries consisted of formal meetings and formal planning of up to five years is practiced in all subsidiaries. The communication style between parent company and subsidiary was relatively open and employees addressed their immediate boss by their first name, which is typical of American organisational culture as seen in the next quote:

*“The Americans are very easy to talk to, first name basis, no Mr or Mrs ‘so-and-so’.*

Product-Line Manager, German Antenna

Another interesting observation was also made at the US headquarters site. Although the layout of the offices was open-planned, the senior managers had their own offices (though the doors are always open). However, there was some sense of formality in the way the open-layout of each floor was divided. Divisions were used to create cubicle spaces for each employee. These divisions varied in height and colour to signify the different levels in the organisation. Higher divisions meant middle-level managers were located in those cubicles and lower divisions were for personal assistants to managers.

Another difference between the European headquarters and the US headquarters site was the location of the managers. In Europe, the senior management were located on the top floor of the building and each manager had their own offices and all their doors were closed. The atmosphere was very cold and formal. However, employees of the same department were located on the same floor and were placed in a room to



create an open communication flow among them. In the US, the senior management were organised according to the departments and the 'boss' of the floor was located near the entrance to promote 'availability and access' to the employees.

Hence, a summary of this dimension is seen in Appendix 7. The overall mean of several organisation manifestations variables were calculated and First Automotive scored 6.34, reflecting characteristics of a relatively open, informal communication style that is explicit in nature.

### **Interpersonal relations: Customer-oriented and caring towards employees**

This dimension looks at the interpersonal relationships within the firm, such as, its relationships with various stakeholders such as employees, customers and shareholders (Appendix 8). It scored an overall of 5.07, reflecting characteristics of a company that places just as much value on its employees as on its customers, as observed in the printed materials distributed to employees. It wants to portray an image that it cares for its employees and values their contribution. However, this seems to be a difficulty for the multinational as seen in a rather poor score on listening to problems and complaints in Appendix 8.

### **Motivation, staffing & training: Recognition and security**

In terms of motivation, employees are rewarded through their level of contribution to the company. This is monitored through a formal personal business plan for every employee that reviews the performance of each employee three times a year based on personal goals and company objectives. Bonuses are issued to employees at the end of each financial year depending on performance of the company and the employee's contribution for that year. This corresponds to the traditionally individualistic American culture identified by Hofstede (1980) that strongly endorse achievement, especially in the pursuit of material wealth. Outstanding or long-serving employees are awarded with recognition rewards or certificates or plaques. Copies of these are displayed near the common cafeteria in the US headquarters as a promotion of recognition of hard work to encourage other employees to strive similarly.



The staffing procedures follow that of selecting the best individuals for the job. This is in line with its attitude to constant innovation and providing the latest technology to its customers. Most of their senior management and engineers have at least a post-graduate degree and lower level employees or new recruits are encouraged to take post-graduate degrees. This brings us to the training outlook of the company.

Training is seen as an integral part of the organisational culture of First Automotive. It is widely available for all employees for personal growth and development. One example is that optional English training provided to employees in foreign subsidiaries. The mentality where all its foreign subsidiaries should learn the parent company language is typical of the American culture of universalism. The Americans do not have the mentality of adapting to other cultures, instead, other cultures should adapt to them.

Therefore, based on the above discussion, First Automotive scored a mean of 4.62 for this dimension (Appendix 9). Based on the questionnaires, First Automotive scored rather poorly in terms of addressing employee work problems and issues and that there is insufficient people qualified for available jobs. This is probably due to the size of the company where it is difficult for every work problem to be addressed.

In order to understand the difficulties encountered in the European M&As, it is essential to distinguish the national culture of the US according to the perceptions of Americans and the Europeans interviewed and also from the results of the survey conducted on NC.

### **6.3 AMERICAN CULTURE**

The American culture analysed from the interviews and the survey corresponded closely to Hofstede's views on the Americans that are low power distance, high individualism, low uncertainty avoidance and high masculinity. In this study, the conclusions drawn from national cultural dimensions are as follows:



### 6.3.1 Individualistic country

The Americans, according to Hofstede, scored highly on this index and this corresponded to the findings from the interviews. Results from the questionnaire reflected a high mean score of 6.76 for the six identified variables for this NC dimension, the highest score among the four countries under study (Appendix 10). Compared to the other cultures, the Americans scored the highest in terms of having a challenging work environment and having sufficient time for personal life and family, reflecting high individualism.

### 6.3.2 Explicit language

According to Hall (1960), the Americans are from a low-context culture. This corresponded with the researcher's personal conversations with the American contacts made with the headquarters. It was observed that Americans are very direct and like to get to the point when discussing issues.

In addition, information is made clear and explicit in verbal and written communication. For example, it was imperative that the researcher signed a non-disclosure document prior to commencing fieldwork, indicating the importance of explicit information being understood by both parties. This document was considered legally binding and if the researcher failed to uphold to the agreement, court actions would be undertaken.

The other characteristic of the Americans is that they are not fluent in more than one language. Many of the interviewees in Europe complained that their American counterparts refused to learn the necessary European languages to conduct business and they felt frustrated by this unwillingness from the Americans:

*"Americans don't usually speak more than one language that is English...they don't bother to learn other languages."*

Finance Manager, Swedish Consultancy

This unwillingness to learn other languages can be coined as being intolerant or insensitive to other cultures and a high score of this is assigned to this variable. This



is also reflected in the following quote by the finance director located in the US headquarters:

*"I think we are very North American focused. We do not have an international view....our lack of language skills. I would think that would bother some people, for example you are in Germany and you don't speak German."*

Assistant Finance Director, US headquarters

Therefore, the overall mean score assigned to this dimension in this research was 2.75, the lowest score indicating that the US has a neutral and explicit way of communicating with people (Appendix 11).

### **6.3.3 Short time-orientation**

This dimension looked at two questions in the questionnaire and personal observations made at the sites. Based on the questionnaire, the Americans seem to have a longer time orientation as compared to the European counterparts when asked about their length of employment and their intention to stay in the firm.

However, to understand fully this dimension, periods set to achieve goals and results must be also considered. It has been noted from First Automotive's performance measurements procedures that there is a very short-term view in collating performance results. In addition, many of the interviewees at the acquired subsidiaries mentioned that they felt First Automotive has a strong focus on short-term results and this is evident in the quarterly reports they have to make on performance. This is also seen in the personal business plans that First Automotive set for each employee that allow them to identify what they want to achieve three times a year and measure and reward individual performances based on personal achievements.

Therefore, based on this dimension, the Americans scored the lowest, reflecting the adoption of short-term view toward time. This is seen in Appendix 12 where the US scored the lowest of 3.73 mean score.



#### 6.3.4 Low tolerance to uncertainty and low sensitivity to other cultures

The following quote emphasises that the Americans are freedom-loving and are self-reliant and are willing to make changes in their lives, displaying the attitude of not being risk adverse. This is closely related to Hofstede's uncertainty avoidance.

*"The Americans are very flexible in their lives, regarding standard of housing and moving house...for example if 'I lose my job, I will sell my house and move from LA to Chicago...we Germans are not like that."*

Human Resources Manager, German Antenna

This reflects that Americans have a greater tolerance of ambiguity and this is seen in their flexibility of changing procedures daily in First Automotive and the ability to move easily across the States to set up a new home and start a new job.

However, through interviews it can also be concluded that the Europeans think that Americans are intolerant or insensitive to other cultures. The following quotes reflect the common view Europeans have of the Americans. In addition, the plant manager at German Security provided a pictorial description of a long-standing joke that has been circulating in the company through its e-mail system. This is seen in Figure 6.5. Therefore, low scores have been assigned to the qualitative variables of willingness to change or adapt and the degree of sensitivity to other cultures as seen in Appendix 13.

*"The problem with Americans is that they see themselves as the centre of the world. They have problems in understanding that the clocks are moving differently in Asia and Europe, and in wherever in the world, the people are different. This is a problem of the Americans; they are not able to adjust to the rest of the world."*

Plant Manager, German Security

*"I have seen hundreds of Americans coming over (to Germany) for one or two years, only two of them tried to learn the native language."*

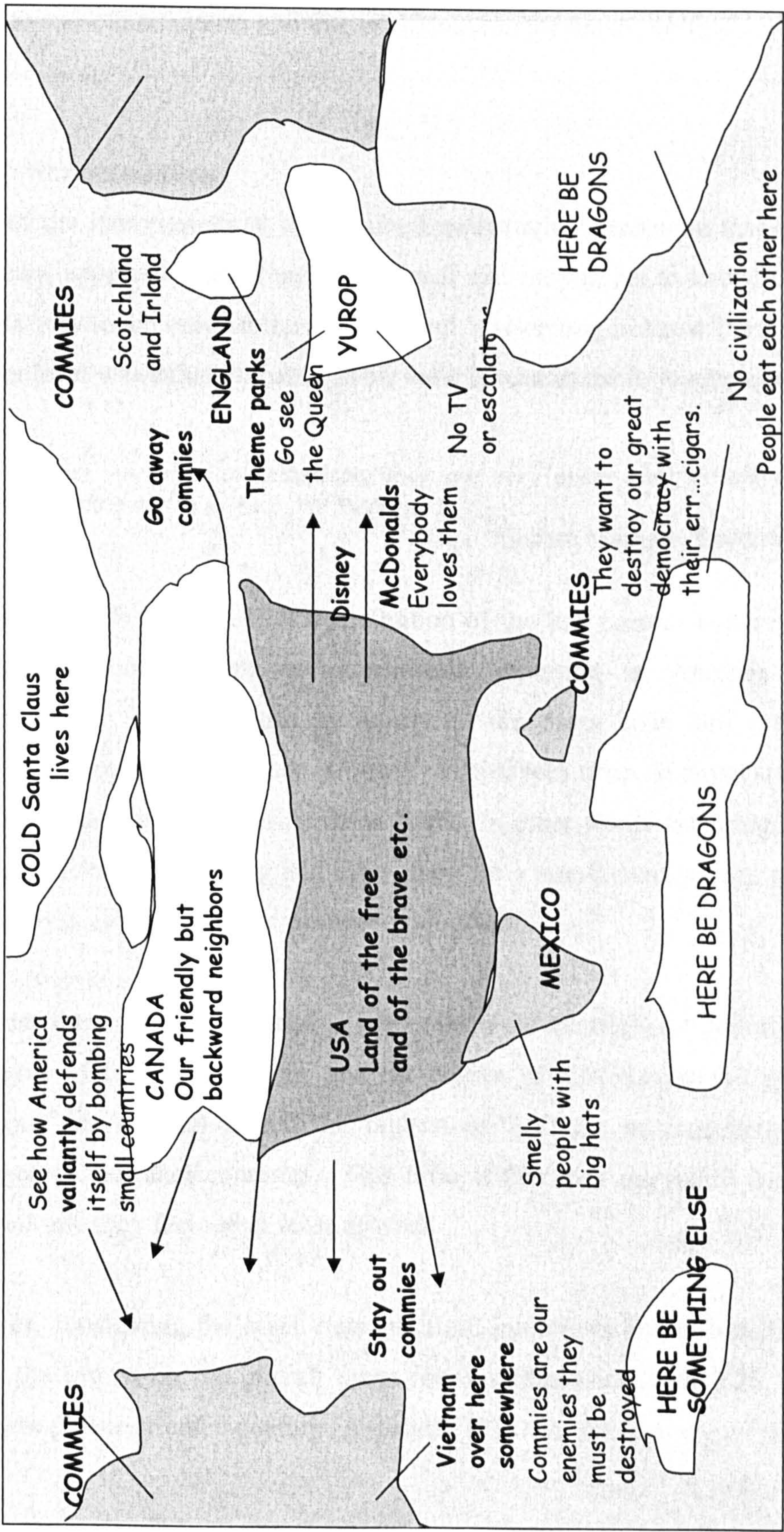
Plant Manager, German Security

*"Americans do expect everyone else to speak English, otherwise they would not do business with them."*

Finance Manager, German Antenna



Figure 6.5: The world according to America



Source: From a German Antenna's employee's e-mail box



Therefore, with the above information and answers derived from the questionnaire, this study found that the Americans were generally intolerant to uncertainty and insensitive to other cultures and this is reflected in the mean score of 3.48 (Appendix 13).

### **6.3.5 Power orientation**

Many of the interviewees at the acquired subsidiaries mentioned that although the Americans appeared to be friendly, informal and easy to get to know, they felt that this was very much only on the surface level, and getting to know the Americans on a deeper level was an uphill battle. This view is seen in the following quote:

*“When you meet an American, they are very open, easy to talk to, very accessible on the surface, not in-depth.”*

Finance Manager, Swedish Consultancy

This corresponds to Hall’s (1960) definition of the low context culture where deep personal relationships are not considered important in America. Through observations in the American headquarters, the dress code and greeting ritual between employees were rather informal. Employees dress in smart casual clothes and greeted each other on a first name basis. In other words summing from above, although informal in greeting and dress, they are a non-contact culture and maintain certain physical/psychological distance with others.

However, from the questionnaire in response to the questions of preferred manager, the degree of fear of managers, and the degree of nervousness felt at work, it is surprising that the US scored the highest of 7.02 for its transformed mean as compared to the other countries. This reflects that they are rather fearful of their managers and they feel rather tense at work.

However, considering the other elements from interviews and observations, the US scored the lowest on the overall mean for this dimension with 3.26, indicating a rather low power oriented country (Appendix 14).



### 6.3.6 Masculinity vs. femininity

Based on overall mean of several questions answered in the questionnaire, the US scored 6.48 for this dimension (Appendix 15). This indicates that it has a more masculine culture where opportunities to earn high salaries, get recognition in work, and opportunities to advance in their careers, were considered more important than the feminine variables. This finding is similar to Hofstede's finding on his masculinity and femininity index. This dimension has implications for the motivation, staffing and training of employees in any organisation as a more masculine culture will tend to recognise employees' contribution in terms of monetary rewards, whereas a more feminine culture will recognise contribution in terms of better working environments or other methods.

The implication of this finding is that if cultures are more feminine than the US, there will probably be more difficulty in integrating the human resources in the post-acquisition process. This will be seen later in the individual case studies discussed.

## 6.4 POST-ACQUISITION MANAGEMENT STYLE

According to the senior managers and directors in First Automotive, there are two post-acquisition phases that are adopted for all types of acquisitions: minimal integration and active absorption. The strategies do not differ according to the types of acquisitions (domain strengthening, domain exploration and domain extension). This is seen clearly in its four European acquisitions.

The initial management style of minimal integration lasted typically for three to five years. During this period, First Automotive held the managing director at each site accountable for the management process. The acquired firm was allowed to design its own business plan and report this to the senior management at the US headquarters (1990-1995) or European headquarters (from 1995/6). There was a reason for the minimal integration level for the first few years of the M&A as seen in the following quote by the general director:

*"We knew at the beginning that we do not want to start with active integration because of what the customers told us. The customers were very concerned the*



*result of the acquisition would create changes in personnel and hence the elimination of the long-term relationships that were built. The customers would leave if we tried to integrate from the beginning."*

General Director of International Business Unit (retired), First Automotive US HQ

After the initial period of minimal integration, First Automotive then carried out a very typical American approach in integrating a new acquisition on in this case four acquisitions. There was little regard to the type of acquisition it made (domain strengthening, domain exploration or domain extension). The intention for all the acquisitions was deep integration or full absorption of the acquired firm into First Automotive structures and controls. This move is in line with its goal of achieving common systems.

During this phase, First Automotive tried to integrate all functions of the acquired firm into its organisational structure. Central approval was required for all the major decisions on budgets, capital expenditure, new products, and change in strategic direction, although day-to-day operations are more decentralised. First Automotive prefers deep integration as a strategy whenever it acquires a company. It does not like to have decentralised units around the world as it is seen as difficult to control and manage. This is termed as *absorption strategy* according to Haspeslagh and Jemison (1999).

However, the author believes that this common strategy for different types of acquisitions was a mistake because it set up barriers at the acquired firm and takes longer for the acquisition to attain success. As evaluated by the literature (e.g. Haspeslagh and Jemison, 1991), there have to be different integration strategies for different types of acquisitions. The senior managers interviewed at both the US and European headquarters realised this mistake and this is best seen in the following quote:

*"...the company made a typical American mistake, it went in with a cowboy attitude when it bought companies in the 1990s – now you belong to us, now we integrate, here is a list of things you have to do, now integrate. This doesn't work because you really get a huge barrier and you work over the next five years to limit this barrier..."*

Human Resource Director, First Automotive European HQ



This common integration strategy for the different types of acquisitions brought on more difficulties and high levels of resistance in the various acquired firms that First Automotive could have avoided. This is probably one of the reasons why the acquisitions are yet to fully realise the intended synergies. Chapters 7 to 10 will detail these struggles and demonstrate First Automotive's insensitivity to differing cultures differences and the ad-hoc planning of implementing and communicating post-acquisition changes.

There were several factors contributing to the style of management adopted by First Automotive in its four M&As.

*Between 1990 -1995:*

- No European offices, hence no staff in Europe. This made it difficult to understand the acquired firm's businesses.
- Furthermore, little experience in managing M&As. Therefore, the post-acquisition management styles adopted in the first three acquisitions (German Security, French Security and Swedish Consultancy) were relatively the same – termed as the 'cowboy approach' by the European HR director.
- The acquired managements did not feel a commitment from headquarters to their business.

*From 1995/6:*

- European headquarters was set up in 1995/6 in Germany.
- Most of the successful implementation of common systems began to take place from this period onwards. Possible reasons include replacement of leaders in the acquired firms; more dedication from First Automotive in having common systems etc. These are discussed in detail in each case study.
- Also interesting to note is that from this time period on, the management style in the fourth M&A was slightly different. This could be the presence of the local European management team, which led to a better understanding of the German market. There seems to be the link as to why this M&A is the most successful out of the four.



## **6.5 PERFORMANCE MEASUREMENT OF M&A**

Prior to 1995, there was no common matrix for measuring the performance of the acquisitions. However, since they set up their European headquarters in 1995/6, the acquired firms are measured by a common matrix that includes: manufacturing matrix, financial budgets and corporate audits.

### **6.5.1 Financial budgets vs. actual: Sales, profits, and employee growth**

First Automotive measures the performance of these four acquisitions on growth and bottom-line. These are measured quarterly and annually. In the financial budgets the main financial figures looked at are sales, profits, employee headcount to the European Finance Director. The latest performance figures for all acquisitions are presented in each case study.

### **6.5.1 Manufacturing metrics**

Since 1995, all acquired manufacturing firms have been measured on a common matrix that is based on 13 variables. These include quality standards, parts per million, internal productivity rate, premium shipments, lost workday case rate, total recordables rate, manufacturing expenses, percentage of sales, spills, worldwide formal customer complaints, inventory turns, inventory value, overtime per cent, scrap per cent, gap assessment, and receiving windows compliance (see Table 6.10 for the definition of each metric).

Every manufacturing subsidiary or acquired firm of First Automotive reports the above variables monthly on their web-based manufacturing database and the total score or ranking for the subsidiary is calculated. Only three of the M&As are measured according to these metrics provided by First Automotive. Swedish Consultancy has been excluded because is not a manufacturing facility; hence its M&A performance will only be based on financial budgeting and corporate audits results. For the purpose of this study, only six of the metrics are used to gauge manufacturing performances of the M&As, as these were the only available data provided to the researcher.



Table 6.10: Manufacturing metrics

Appendix	Metric	Definition	2002 Target	Best in class
16	Ship window compliance	The percentage of shipments that conform to date, time, mode of transport, quantity and model mix requirements. A shipment is defined as a loaded truck containing the appropriate orders. (i.e. delivery)	100%	100%
17	Operational availability	The actual run time (minutes) of equipment stated as a percentage of its scheduled time (minutes). (i.e. how many hours in production?)	87%	≥ 98%
18	First time quality	Parts per million (PPM) of products that are interrupted in the manufacturing process the first time through	<20,000 or 50% improvement over 2001 performance	<20,000
19	Manufacturing expense % of sales	Represents the portion of revenue from internal and external sales attributable to manufacturing expenses	< 20.5%	Not available
20	Returned parts per million	A measure of the number of returned or reworked units (as experienced by the external customer) per million units shipped	≤ 20 PPM	≤ 20 PPM
21	Lost workday case rate	A measure of cases that result in one or more full days away from work. It is used as an indicator of occupational safety	< 0.16	< 0.15
-	Internal productivity rate	The total number of good units produced for the customer in relation to the number of hours worked in a given period	N.A.	N.A.
-	Internal productivity improvement	The comparison of the current month's internal productivity rate to the baseline (For 2002, the baseline is January)	15% improvement	15% improvement
-	Premium shipments	Shipments that are made outside the customer's normally specified mode of transportation. Premiums are expressed as a per cent of total shipments	< 0.5%	0%
-	Total recordables rate	A measure of cases that result in medical treatment beyond first aid. It is used as an indicator of occupational safety	< 1.45	< 1.40
-	CIP participation	The percentage of first time employee participants in the continuous improvement process	≥ 75%	70%
-	Spills	Product-related interruptions. Event is classified as a spill if:	0	0



		<ul style="list-style-type: none"> <li>- There were more than 25 pieces per event</li> <li>- The plant/line shut down</li> <li>- Event caused a rescheduling of plant production</li> <li>- Event caused a rework of vehicles already assembled</li> <li>- The customer call the event a ‘spill’</li> </ul>		
-	<b>Worldwide formal customer complaints</b>	Complaints from a customer which are issued and documented via a formal complaint process	< 472	< 100
-	<b>Inventory turns</b>	Represented by the ration of annualised cost of goods sold to actual inventory cost, which includes the entire value chain	≥ 14.2	Not available
-	<b>Inventory value</b>	Month-ending inventory value for the site	\$293 million	-
-	<b>Overtime per cent</b>	Represents the overtime hours worked as a percentage of straight time hours worked	≤ 9.5%	≤ 2%
-	<b>Scrap per cent</b>	The portion of the cost of goods manufactured which represents scrapped material	≤ 0.55%	≤ 0.2%
-	<b>Gap assessment</b>	An overall measurement of the site’s performance on flow manufacturing, employee environment and involvement, workplace organisation, quality, operational availability, and material movement	3.5	4.0
-	<b>Receiving window compliance</b>	The percentage of deliveries that conform to date, time, mode of transport, quantity and part mix requirements. A delivery is defined as an order received from a supplier	75% improvement over last year	N.A.

Source: First Automotive



### 6.5.3 Corporate audits

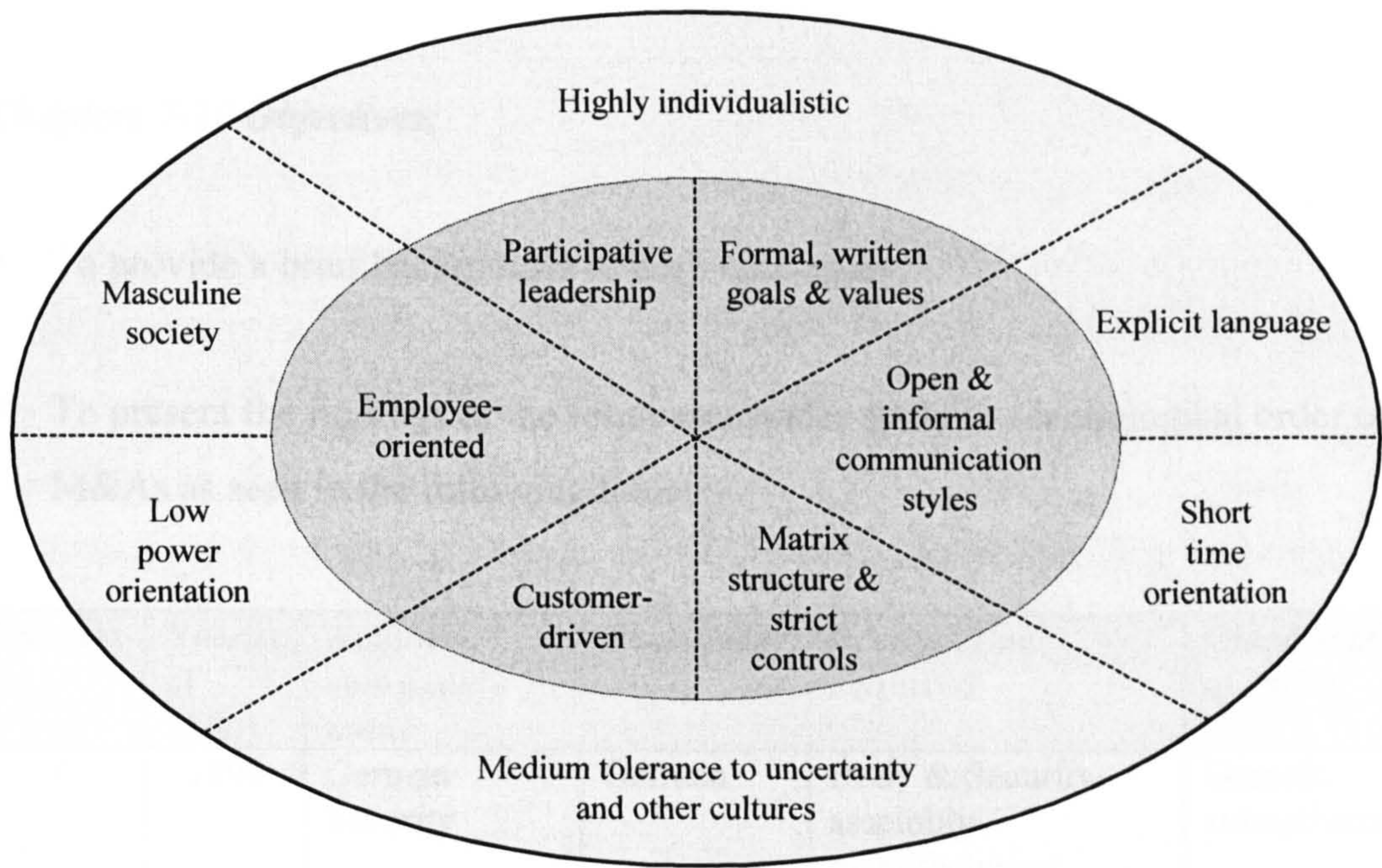
In addition, *corporate audits* are conducted every three years to measure whether the acquired firm is following the procedures and controls of First Automotive. The purpose of the corporate audit is to highlight areas that have not been followed any procedures on safety, financial controls, quality of offices, etc. This measures to some extent the level of universalism First Automotive wants to achieve in all its corporate sites. The results of the corporate audits are presented in each case study. It must be noted that more common processes denote success as that is the goal of the organisation, common processes for all sites around the world.

## 6.6 CONCLUSIONS

This chapter has introduced the reader to the automotive components multinational supplier and its industry. A competitor analysis and SWOT analysis of the industry First Automotive was facing prior to the European acquisitions was conducted to understand the driving forces behind the acquisitions. In addition, based on these analyses and the interviews conducted with headquarters personnel, it was concluded that the main motives for acquiring into Europe were to gain instant market access, technology, and skills. Then the chapter went on to analyse and describe the organisational culture and the national culture of First Automotive and the US according to the author's multi-dimensional cultural framework developed in Chapter 3. Figure 6.6 sums up these dimensions. Then the chapter briefly looked at the management style of the post-acquisition phase indicating that there are sub-phases and challenges. This was followed by the performance measures used to evaluate the success or failure of the M&As.



Figure 6.6: Summary of First Automotive culture and the US culture



Source: Author

In the following chapters 7 to 10, the reader will notice that there are varying degrees of differences between the North American culture and the German, French and Swedish cultures and the differences between the organisational cultures. These differences have contributed to the varying degrees of success of the post-acquisition process of the four acquired firms and the resistance encountered in each country.



# FINDINGS & ANALYSIS OF THE CASE STUDIES

## Chapters 7-10 Objectives:

- To provide a brief background of each case study
- To present the findings of the four cases under study in chronological order of the M&As as seen in the following table:

Chapter	Year of M&A	Acquired company's name	Nationality	Product line acquired	Classification of M&A
7	1990	German Security	German	Body & Security assembly manufacturing	Domain strengthening
8	1993	French Security	French	Security assembly manufacturing	Domain strengthening
9	1994	Swedish Consultancy	Swedish	Automotive service - consultancy	Domain exploration
10	1995	German Antenna	German	Antenna & mobile multimedia assembly manufacturing	Domain extension

Each case study chapter has been divided into five main sections. The first section discusses the M&A background, including a brief history of the acquired firm and the motives for the acquisition. The second section analyses the cultural dimensions for the case. This is followed by discussions of the four post-acquisition phases of management. Each phase details the types of post-acquisition changes including timing and implementation; the influences of the different organisational and national cultures on the process; the resulting employee behaviour at the acquired subsidiary and how headquarters handled this behaviour. The fourth section of each chapter analyses the degree of success of this M&A looking at the profits, sales, headcount and the ranking of each acquired manufacturing site in comparison to the other First Automotive foreign subsidiaries. Finally, each case study chapter ends with answers to the research questions, highlighting the main discussion points.



CHAPTER 7: ACQUIRING INTO GERMANY (1)

7.0 INTRODUCTION

This is the first of four chapters of case studies illustrating and discussing the post-acquisition management process carried out by First Automotive. This chapter looks at the headquarters’ first acquisition into Europe, its first acquisition in its division’s history. It was an acquisition into the German vehicle security market. This is classified as *domain strengthening* because First Automotive bought a direct competitor in the market of vehicle security (an existing product line in its portfolio). Table 7.1 highlights the characteristics of the interviewees and a brief profile of their background for this case study.

Table 7.1: Interviewees’ profiles for Germany Security

Classification of interviewee	Company	Position held in company	*No. of years in service
Strategists	First Automotive, US headquarters	Retired Director of International Business Unit	30
		Assistant Finance Director	25
	German Security	Plant Manager	22
Implementers	First Automotive, European headquarters	European HR Director	5
		European Finance Director	2
	German Security	Finance Manager	2
		Quality Manager	14
Receivers	German Security	3 R&D engineers	40
		2 Quality engineers	26
		IT personnel	10
Total number of interviewees for this case		13	
*Number of years in service as of 2002			
Note: Analysis of case study also includes the comparison of survey results of NC and OC between German Security and First Automotive			

Source: Author

7.1 BACKGROUND OF M&A

German Security was created in 1980 as a company manufacturing industrial security systems by a university professor. This professor then hired two business partners to run the daily affairs of the company while he continued to work at the university. Its main business activities were manufacturing vehicle security devices for the OEM market. Customers before the M&A consisted of only German OEMs.

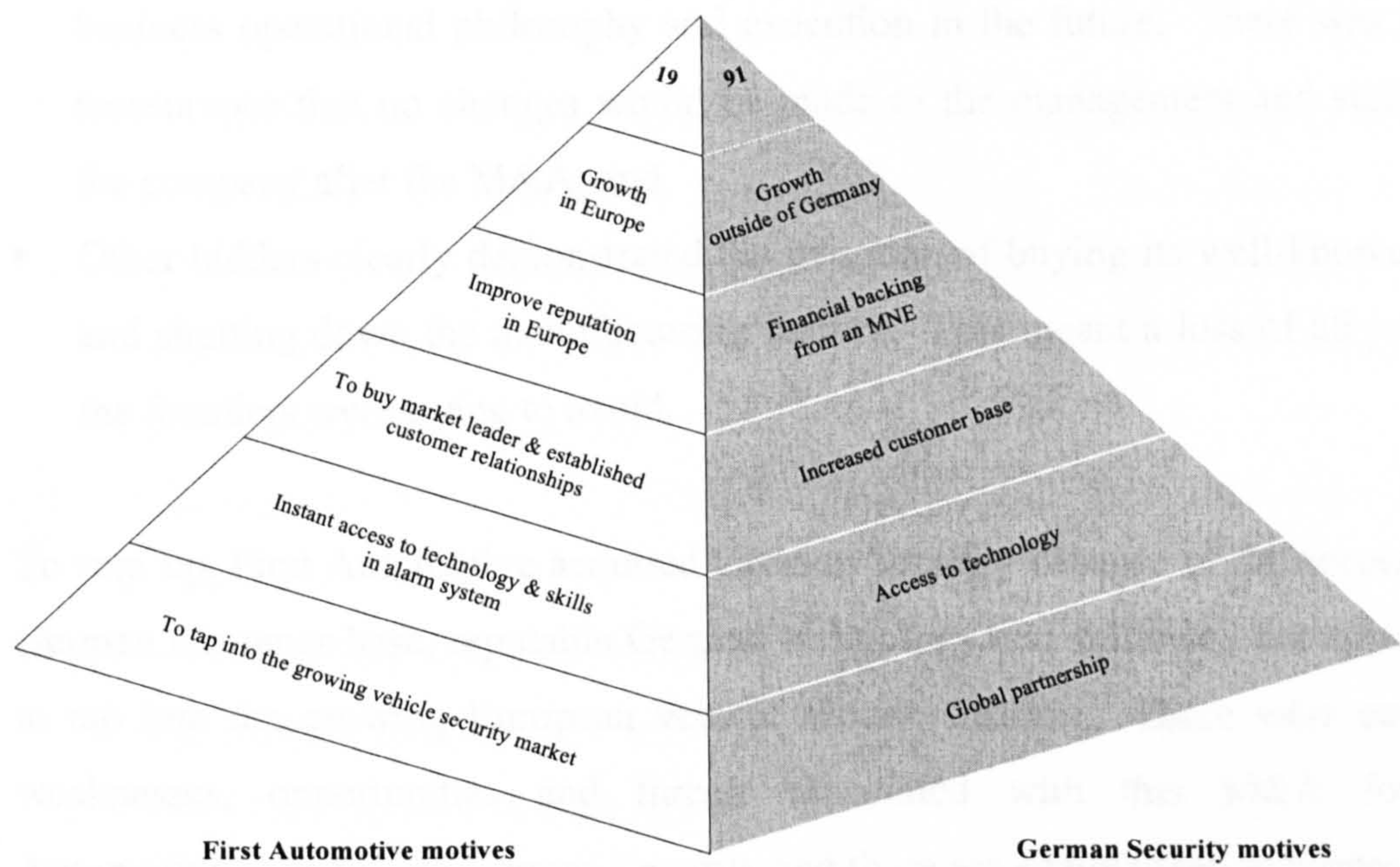


Today, the company has grown in size and has expanded the number of devices it manufactures to include central electronics, central door locking, theft alarm systems, sensor systems, interior protection, radio remote control and others for automobiles. It serves well-known customers such as Audi, BMW, Ford, Jaguar, Mercedes, Porsche and others.

**7.1.1 Motives for M&A**

The driving forces behind this acquisition lay in the growth in the European vehicle security market in the early 1990s. This growth arose from the increasing number of vehicle thefts and increasing pressure from insurance companies to secure cars with higher technology. This market opportunity was timely as it fitted into First Automotive’s global expansion plans into Europe. German Security was acquired for DM 2.3 million in March 1991. The motives for the M&A are analysed from both firms’ points of view as seen in Figure 7.1.

Figure 7.1: Motives for the acquisition of German Security



Source: Author, based on interview and archival data

From the headquarters point of view, the strategic motives to acquire German Security included: (1) to tap into the growing European vehicle security market; and



(2) to gain direct access to the local OEMs through established relationships in Germany. The M&A was conducted with the intention to capture manufacturing, customer and financial synergies.

As from the acquired subsidiary's perspective, the strategic intention was to look for a global partner to improve its financial situation and to globalise its operations. Although German Security was a market leader in the local vehicle security market, it was not performing quite as well in terms of operating income. It seriously lacked the capital for expansion to improve the situation. Hence, the founder decided to look for a partner. There were several bidders involved in the pre-M&A stage including Siemens. There were two main reasons why the founders decided to accept the bid from First Automotive:

- They felt that the company would benefit from the access to First Automotive's huge automotive supplier network;
- First Automotive also reassured the owners that the business would retain the business operational philosophy and execution in the future. There was further reassurance that no changes would be made to the management and staffing of the company after the M&A; and
- Other bidders clearly demonstrated the intention of buying its well-known brand and shutting down the manufacturing facility. This meant a loss of all jobs that the founders were trying to avoid.

To sum up, First Automotive acquired German Security because of the access to the German customer base, reputable German technology and skills and the opportunity to tap into the growing European vehicle security market. There were strengths, weaknesses, opportunities and threats associated with this M&A for First Automotive in acquiring German Security and these are summarised in Figure 7.2



Figure 7.2: SWOT analysis for First Automotive in acquiring German Security

<b>STRENGTHS</b> <ul style="list-style-type: none"><li>▪ Flexibility, short response time</li><li>▪ Modern manufacturing facility</li><li>▪ European customer base</li><li>▪ Innovative technology</li><li>▪ University relationship</li><li>▪ Total customer orientation</li></ul>	<b>WEAKNESSES</b> <ul style="list-style-type: none"><li>▪ Small</li><li>▪ OEM dependent</li><li>▪ Lack global presence</li><li>▪ Limited product range</li></ul>
<b>OPPORTUNITIES</b> <ul style="list-style-type: none"><li>▪ Access to German technology &amp; skills</li><li>▪ Increased auto theft</li><li>▪ Insurance pressure</li></ul>	<b>THREATS</b> <ul style="list-style-type: none"><li>▪ Aggressive competitors</li><li>▪ German customers dissatisfaction with headquarters</li><li>▪ Unclear/vague organisation structure in headquarters</li></ul>

Source: Author, based on interviews and archival records

7.1.2 Challenges in this M&A

The main challenges that occurred in the post-acquisition process of this M&A can be summarised as follows:

- This was First Automotive’s first M&A into Europe and the company was highly inexperienced in managing the post-acquisition process. There was no integration plan.
- The acquirer faced a huge barrier of resistance when it began passing down post-acquisition changes to the acquired subsidiary. These changes included implementing the common worldwide systems such as manufacturing process and new product development. These were faced too in the French Security and German Antenna, also manufacturing companies;
- Differences in NC and OC contributed to the high resistant behaviour seen in the acquired firm;
- Post-acquisition resistant behaviour was experienced initially at the top management level and then began to filter down to employee level in the third phase of the post-acquisition process; and
- Synergies in this M&A are yet to be fully realised.

Since the acquisition in 1990 to 2002, German Security has grown from 116 to 609 employees. First Automotive faced the second highest level of post-acquisition



resistance in this takeover which was ranked the third most successful M&A as compared to the other three acquisitions in this study.

## **7.2 COMPARISON OF THE CULTURAL DIMENSIONS**

This next section first discusses the differences of organisational culture (OC) followed by the national culture (NC) between the two firms and their general influences on the post-acquisition process. Mean scores were allocated to each cultural dimension based on survey findings and interview data (Appendices 4-15). Each dimension is also analysed on how it influenced the post-acquisition process with supporting interview quotes.

### ***7.2.1 OC Dimensions***

There were some similarities and some distinct differences between First Automotive and German Security in terms of organisational culture. The differences can be traced back to the basic difference that one is a large multinational firm and the other is a small, entrepreneurial local firm. Table 7.2 displays the dimensions discussed in Chapter 4 and analyses the differences between the two firms according to the evidence from the survey (means) and interviewee data.

The similarities in OC between the firms were in the dimension of: leadership orientation and communication style. In terms of leadership orientation, both firms displayed a top-down approach with a centralised decision-making process. However, this caused some friction between the managements as headquarters passed decisions down into the subsidiary management who were not used to the idea of taking orders. As for the communication style, both firms also had a formal and impersonal communication channel between managements and employees.

The major differences between the acquirer and the German Security were seen in the dimensions of: goal and value alignment; structures and control; leadership orientation and motivation; and staffing and training (refer to Table 7.2 for details).



These differences influenced the post-acquisition process because the acquired subsidiary had to make the changes to accommodate the headquarters' way of doing things. This process took a long time for them to accept and adapt to. The reasons lay in the fact that Germans usually do not like to make changes and the employees strongly felt the changes increased the amount of paperwork and inhibited their long history of innovative corporate culture. Hence, there were many complaints in relation to the additional paperwork and procedures they had to learn, adopt and implement. These affected their motivation levels as a result and the employees at the subsidiary did not feel they were being rewarded accordingly.



Table 7.2: OC influences on the post-acquisition process

Organisational culture dimensions	First Automotive	German Security	Evidence from interviews, questionnaire responses and observations	Influences on the post-acquisition process
<b>Goal and value alignment</b> (Refer to Appendix 4 for mean score calculation  0 represents large MNE characteristics; 10 represents small entrepreneurial characteristics)	<i>Overall mean:</i> 4.00  Bureaucratic MNE  Short-term orientation	<i>Overall mean:</i> 5.00	<p>“Our goals were never written down or defined before the M&amp;A. But everybody was clear about what they were.” – Supplier Quality Management Engineer, German Security</p> <p>“We always were target driven to achieve our goals of making profits, high quality products and satisfying our customers.” – Quality Manager, German Security</p>	<p>“There is a short-term view now. Everything is about low costs, saving money etc.” – Competency Leader, German Security</p> <p>“It was new to us to have long-term targets for next five years. Before we thought about the future but we did not have structured and detailed reports for profits, budgets, headcount as now. This was something we had to learn and took some time.” – Quality Manager, German Security</p>
<b>Structures and controls</b> (Refer to Appendix 5 for mean score calculation  0 represents unstructured, informal and few controls characteristics; 10 represents highly structured, formal and controlled characteristics)	<i>Overall mean:</i> 9.17  Centralised decision making  Process-oriented  Strict controls over employees (e.g. internet, personal telephone calls, etc.)	<i>Overall mean:</i> 6.55  Very structured and organised working habits  Completely different manufacturing systems  OC structures & controls were not explicit	<p>“Trying to change the structure in German Security to the matrix structure was the most difficult process because they had a team structure. When they were assigned new business, they did not have many people, with new contracts; the people would move from product engineering, they would be customer-focused teams. That was a very difficult transition process.” – Ex-Director of International Business Unit, First Automotive</p> <p>“We were a small company and were able to handle decisions without much reporting structure. Now it is completely different as a large company.” - Quality Manager, German Security</p>	<p>“The benefits of changing to the new processes were not seen immediately by us employees. So changing was difficult and a problem as we do not see the benefits for ourselves. Why must we change and do all this additional paperwork? What is the purpose, all it means is that we have to work longer hours to finish a job.” - Project Leader, German Security</p> <p>“Maybe it is the management of this company, people just take the processes from the American HQ and maybe adapt it, but hardly ever, they just throw these new processes at us and we the employees are left to adapt to our daily routines.” - Project Leader, German Security</p> <p>“The decision-makers are decreasing and we have to search for a long time to identify who they are. So at the same time, the customer is waiting for us</p>



			<p>were leaner before than now. Now there are several competencies to report to because of the matrix structure we had to adapt to.” – Plant Manager, German Security</p> <p>“We are more detailed in everything we do. Our procedures are detailed to every point. However, the First Automotive procedures seem a bit ‘rough’ not as detailed. Germans are known to be more detailed than the rest of the world.” – Supplier Quality Management Engineer, German Security</p> <p>“The Germans love processes and procedures. They follow them.” – Finance Manager, Swedish Consultancy</p>	<p>to make a decision.” – Supplier Quality Management Engineer, German Security</p> <p>“What we see now is that reporting is the priority in everything we do. This means that we have become inflexible to our customers because of the long process of the report being written, going through the right channels, through a discussion, than back to us with the decision.” – Plant Manager, German Security</p> <p>“Our flexibility to the customer is disappearing. The customer likes a big company with the flexibility of a small company that is something hard to achieve. Being part of a company of this size has resulted in us being more inflexible as time passes, as we integrate more and more into First Automotive.” -- Plant Manager, German Security</p>
<p><b>Leadership orientation</b> (Refer to Appendix 6 for mean score calculation 0 represents abdicate leadership; 10 represents autocratic leadership)</p>	<p><i>Overall mean:</i> 4.78</p> <p>Top-down approach</p>	<p><i>Overall mean:</i> 7.04</p> <p>Autocratic &amp; hierarchical</p>	<p>“We were kept very much in the dark. We knew the owners changed, but we did not what was going on (about the M&amp;A).” - Competency Leader, German Security</p> <p>“It was a little bit quiet (after the M&amp;A). We did not get a lot of information aside from ownership change. We were shown a corporate video about First Automotive. But I recollect this was very much delayed and not in the immediate weeks after the acquisition, a few months after.” - Supplier Quality Material Management Engineer</p>	<p>“There are a lot of miscommunications and a lot of information gets lost in the process. Communication is not as direct as before the acquisition. It tends to go round in circles before you actually find the right person who is responsible for the problem or project that is if you are lucky you find the person-in-charge.” - Competency Leader, German Security</p> <p>“It was a communication problem. Nothing is usually said from headquarters such as explanations or why it is necessary to have this or that procedure. We were expected to just follow the ‘orders’ if I may say. That is not how we</p>



			<p>“When we changed the email system to Lotus notes we all received a manual and are expected to read it to learn the new system. The users either do not read it or do not understand it because it is in English. However, no feedback is sought from us on whether we understand it or not. So this goes unnoticed.” - IT Supervisor, German Security</p>	<p>Germans work. We have to see the logic behind each change before we can do it or attempt to do it.” - Quality Manager</p> <p>“Communication now is a bit delayed as compared to before.” – Supplier Quality Management Engineer, German Security</p> <p>“We need more meetings. We need to communicate our objectives more clearly to the employees. We believe that everybody should understand what he or she is doing and why he or she is doing it. This is an area that we need to improve as we are rather weak or slow in communicating information.” – Finance Manager, German Security</p>
<p><b>Communication styles</b> (Refer to Appendix 7 for mean score calculation)</p> <p>0 represents informal and less structured style; 10 represents formal and high structured style)</p>	<p><i>Overall mean:</i> 6.34</p> <p>Formal</p> <p>Open-door policy</p> <p>Low context</p>	<p><i>Overall mean:</i> 6.37</p> <p>Very formal</p> <p>Closed-door policy</p> <p>Low context</p>	<p>“One communication difficulty in German Security was very definitely information. It never got past the managerial staff to the organisation to the company. I think they were so certain that they were right, that they did not communicate down the organisation. It took us a while to recognise this; we had to be in Europe to go there more frequently, to understand that the communication process did not go down the organisation very fast.” – Ex-Director of International Business Unit, First Automotive</p>	<p>“Before we had short contact leads with customers. We did things immediately, quickly for the customers, decisions were made quickly, and there were no problems with delays as today. This is due to the increased layers of reporting.” - Engineer, German Security</p>
<p><b>Interpersonal relations</b> (Refer to Appendix 8 for mean score calculation)</p>	<p><i>Overall mean:</i> 5.07</p>	<p><i>Overall mean:</i> 3.73</p>	<p>“We were a smaller company, the management decided for every employee the percentage each is rewarded for that year. It was up to them. Now it depends on First Automotive reward process which may</p>	<p>“They never did provide us training for integration and how to make it easier. There was First Automotive training on the corporation by showing us five sets of videos. That is common process for all its subsidiaries around the world.</p>



0 represent excellent interpersonal relations; 10 represent poor interpersonal relations)			include a possible 5% increase on salary each year depending on the company performance. There is no individual bonus anymore, and we are frustrated.” - Project Leader, German Security	Part of this training was integration on how to work together. But this came several years after the acquisition, not immediately which was necessary I think.” - Plant Manager, German Security
<b>Motivation, staffing, training</b>  (Refer to Appendix 9 for mean score calculation  10 represent high levels of de-motivation levels, poor staffing and little training)	<i>Overall mean:</i> 4.62  Formal procedures for hiring, training and motivating employees	<i>Overall mean:</i> 6.23  Family-oriented	“Our previous managing director was a strong guy. There were decisions in seconds, if it was wrong, the next day it was switched. There was flexibility in the past. Now if you want to switch from green to yellow, you have to write a report on why you want to switch it and wait for the reply to come back on whether we can switch. Much longer process.” - Supply Quality Engineer, German Security	“We have allowance to make some decisions at a certain level here. But if it is on a financial level, it goes back to HQ either in Europe or in US, Running in circles, lousy way.” - Plant Manager, German Security  “Before the M&A, we had only one guy to report to, the managing director. Now each employee may have three or four managers to report to before you have a chance to reach the managing director. For some people this was difficult to absorb and handle. Hence they left.” – Quality Manager, German Security  “We have more managers to report to now, to our different competency leaders. The difficult part is that each manager would like the same report written in a different manner. Therefore, we waste a lot of our time preparing reports to suit each manager’s requirement. Reports are necessary but it is too much now.” - IT Supervisor, German Security

Source: Author, based on interviews conducted at German Security and First Automotive in 2002



### 7.2.2 NC Dimensions

This section discusses the similarities and differences between the American and German cultures. Table 7.3 displays the NC dimensions discussed in Chapter 4 and analyses the differences between the two national cultures according to the evidence from the survey (means) and interviewee data. The interview quotes include data from the other German acquisition (known as German Antenna) made by headquarters that is discussed later in Chapter 10.

According to the mean scores in Table 7.3, there were some similarities between the two countries in terms of individualism; time orientation and masculinity. Firstly, both countries are rather individualistic in terms of achieving goals and the attitudes to work life. Secondly, in terms of time orientation, both countries perceive time as linear and tend to be very efficient in doing things during office hours. Finally, both countries are rather masculine in that both are rather conservative and hardworking in their attitudes to work.

There were also differences in the two nations and these affected the post-acquisition process considerably. The distinct NC differences between US and Germany were in terms of: language; tolerance to uncertainty and other cultures; and power orientation (refer to Table 7.3 for details).

The differences in the language dimension became a huge barrier in this M&A because the acquirer insisted that business communication between the companies were to be in English. Although the Germans are known to be quite fluent in English, it is not their first language and this caused many problems in the post-acquisition process, as it meant changing all the document processing and daily communication channels from German to English.

Many of the employees in German Security and in German Antenna (Chapter 10) found it very difficult to communicate with the Americans. They had forgotten the English that they learnt up until secondary school, especially the older employees. Hence, many misunderstandings due to misinterpretations occurred during



teleconferences and meetings. The problem was exacerbated during non-personal contacts (e.g. telephone conversations) because it was more difficult to identify the point of where the misunderstanding occurred when there was no face-to-face contact. As a result the differences in the language dimension slowed down the integration process considerably because the mistakes made in translations or interpretations were realised only after a period.

As for tolerance for uncertainty and other cultures, Germans are considered conservative and inflexible towards life (Hofstede, 1980 and 1994; and Trompenaars, 1993). In this study, interviewees from other sites commented that the differences between them and the Germans were that the Germans did not place as much value on relationships outside of business and are perceived to be rather 'cold' by other cultures. The acquirer's management found that the Germans were inflexible to changes and were very loud in voicing their dislikes. They felt that this personality trait contributed to the higher resistance barrier put up in German Security, as the Germans are not flexible regarding new changes to their life styles or work attitudes. In addition, the main finding from the survey was that they do not like to take risks and this is closely related to a greater degree of written procedures, more formalisation and specialisation in the way their business is conducted. Other differences are noted in Table 7.3.



Table 7.3: NC influences on the post-acquisition process

National culture dimensions	US	Germany	Evidence from interviews, questionnaire responses and observations	Problems caused during post-acquisition process
<b>Individualism vs. collectivism</b> (Refer to Appendix 10 or mean score calculation 0 represents collectivism; 10 represents individualism)	<i>Overall mean: 6.76</i>	<i>Overall mean: 6.65</i>  Quite individualistic	<p>“We work together as a team, hand-in-hand, and no barriers between members.” – Finance Team Leader, German Security</p> <p>“We work as a team but at the same time each individual has to do their job to the best of their ability” – Engineering Team Leader, German Security</p> <p>Germans are governed by rules and not bosses, hence hierarchy is downplayed and decisions are decentralised. At German Security, this is evident in the way the organisation has been designed. The managing director is located on the first floor near the reception office, instead of the top floor.</p>	<p>“Being distant people, more conservative people, it might be difficult to get to know a German person as compared to getting to know an American. So this may have caused some problems in building a teamwork atmosphere between both parties as the Germans tend to be cautious and cold.” – PC&amp;L Manager, German Security</p> <p>Therefore, because the Germans are similar to the Americans in having less hierarchy and downplaying authority and status, it was relatively easier to integrate the structure.</p>



Language  (Refer to Appendix 11 for mean score calculation  0 represents a neutral society 10 for an affective society)	Overall mean: 2.75	Overall mean: 6.75  Less affective communication than the French  Not very fluent in English, albeit more fluent than the French  More willing to learn English and speak it than the French	<p>“When we have teleconference calls with our American counterparts, we do not totally understand all that is being said. Sometimes they make jokes during the conversation and we do not understand their jokes.” – IT Supervisor, German Antenna Architect, German Antenna</p> <p>“If one adapts specific expressions without knowing the history of that expression in the other country, it can lead to misinterpretations.” – Product-Line Architect, German Antenna</p> <p>“Communicating with German Security was very difficult for a long time, until we had more people with German language skills to actually communicate in German. The difference in language affected the communication channel between the firms. There was a lack of a good foundation for communication.” – Ex-Director of International Business Unit, First Automotive</p>	<p>“For example, ‘shall be done’ in American specifications actually means ‘must be done’ to them. But to us Germans, we read it as “ok it can be done but not necessarily a must’. These little differences play very important roles in communication between cultures.” – Product-Line Architect, German Antenna</p> <p>“Language slowed down the integration process. Because sometimes we do not understand the terminology used in the First Automotive manuals or even during the business meetings with the Americans.” –Finance Manager, German Security</p> <p>“Teleconference calls are very difficult for us because the Americans speak in slang and they speak very fast. So it is difficult for us to fully understand the message and sometimes we find out later we have misinterpreted the message.” - Plant Manager, German Security</p> <p>“Till today we have global conference calls of 30 minutes of misunderstandings because of the different use of words and training, terms are simply different. English is not English.” –Quality Manager, German Security</p>
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<b>Time orientation</b>  (Refer to Appendix 12 for mean score calculation  0 represent linear, short-term view; 10 for long-term view)	<i>Overall mean:</i>  3.73	<i>Overall mean:</i> 2.39  Time is viewed as very linear	“Germans like to do things fast. For example when we go on vacation, we try to do things fast. Also we eat our lunch very quickly.” –Supplier Quality Management Engineer, German Security	Compared to the Americans, Germans are seen to do things more quickly and efficiently. During observation, it was noticed that lunch was eaten rapidly in less than 10 minutes at individuals’ desks. They do not like waste time as they see this as being unproductive. Hence, the Americans were seen as ‘slower’ in accomplishing things or even making a decision and this frustrated them in the post-acquisition stage.
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<p><b>Tolerance to uncertainty and other cultures</b></p> <p>(Refer to Appendix 13 for mean score calculation)</p> <p>0 for low tolerance; 10 represents high tolerance)</p>	<p><i>Overall mean:</i> 3.48</p> <p>Very proud of their culture</p>	<p><i>Overall mean:</i> 3.84</p> <p>Intolerant of unknown, uncertainty</p> <p>Perfection in everything they do, no loop-holes</p>	<p>“I found the German national culture very structured, there are laws for everything, like when the stores are opened or closed, it did make it easy to work there as you know what to expect. I found people very disciplined to the laws, tremendous discipline for the laws. Probably easiest example was driving on the highway; you knew which lane to drive in, which speed to drive. It was much disciplined.” – Ex-Director of International Business Unit, First Automotive</p> <p>“We are over-ruled, we live by the laws and rules set for us.” – Finance Manager, German Antenna</p> <p>“The Germans are very stubborn, very loud and aggressive and arrogant sometimes.” - European HR Director, First Automotive</p> <p>“In Germany, I have a wife and children and build or buy my house, it is one time. My work is about 50 to 60 km away. It is difficult for me to understand the Americans because they are willing to change and relocate their house many times in their life. For us Germans, we are not willing to do that. We want to build a house and stay in that region until we retire. Americans do not understand this.” – Engineer, German Security</p> <p>“Germans do not like taking risks in anything they do.” – PC&amp;L Manager, German Antenna</p> <p>“Germany as a country is much regulated. More so than in the US.” – European HR Director, First Automotive</p> <p>-305-</p>	<p>“...people who do not like to read and write in English, write emails in English, write reports in English, faced a lot of problems and put up a lot of resistance to adapting to the new procedures.” Quality Manager, German Security</p> <p>“Germans are not willing or take it easy to change. If they change, you get the impression it is a step back, say the change is in the wrong direction, and then the resistance will be higher.” Plant Manager, German Security</p> <p>“If tomorrow you say there is a problem with the future of this company, the Germans will be trembling and start worrying about the future such as what will happen to my family, my house etc. The Americans will go on as if normal, no panic.” - HR Manager, German Antenna</p> <p>“There is much more noise from Germany, if you change something such as a procedure or a process. They are intolerant of changes and new ideas.” - European HR Director, First Automotive</p>
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<b>Power orientation</b> (Refer to Appendix 14 for mean score calculation  0 for low power orientation; 10 represents high power orientation)	<i>Overall mean:</i> 3.26	<i>Overall mean:</i> 6.17  Higher power distance between managers and subordinates	<p>“Germans are a little bit more distant and more conservative than the Americans.” Product Manager, German Security</p> <p>“Compare the two headquarters site in US and in Germany. You will notice that things are more formal between managers and subordinates in the German headquarters site.” – Project Leader, German Security</p>	<p>“In Germany, when a boss tell his subordinate to do something, the subordinate will try to argue with the boss on why they should do it. They do not accept it as in France.” - European HR Director, First Automotive</p>
<b>Masculine vs. femininity</b> (Refer to Appendix 15 for mean score calculation  0 represents a feminine society; 10 represents a masculine society)	<i>Overall mean:</i> 6.48	<i>Overall mean:</i> 6.90	<p>“Germans are tough, very aggressive, very loud, and arrogant sometimes. Very pushy, not nice to be with, separate personal from work life. Very bureaucratic.” – European HR Manager, First Automotive</p> <p>“We are serious people and we take our work more seriously.” - Competency Leader, German Security</p> <p>“Germans are a little bit more distant and more conservative than the Americans.” Product Manager, German Antenna</p>	<p>“Germans like to work, are highly motivated. If you come in here at 8 pm you will see people still at their desks working.” –Competency Leader, German Security</p>

Source: Author, based on interviews conducted at German Security, German Antenna, and First Automotive in 2002



### 7.3 POST-ACQUISITION MANAGEMENT OF GERMAN SECURITY

This next section discusses in detail the post-acquisition management process that took place in German Security between 1990 and 2002, highlighting the post-acquisition changes and employee behaviour at the acquired subsidiary.

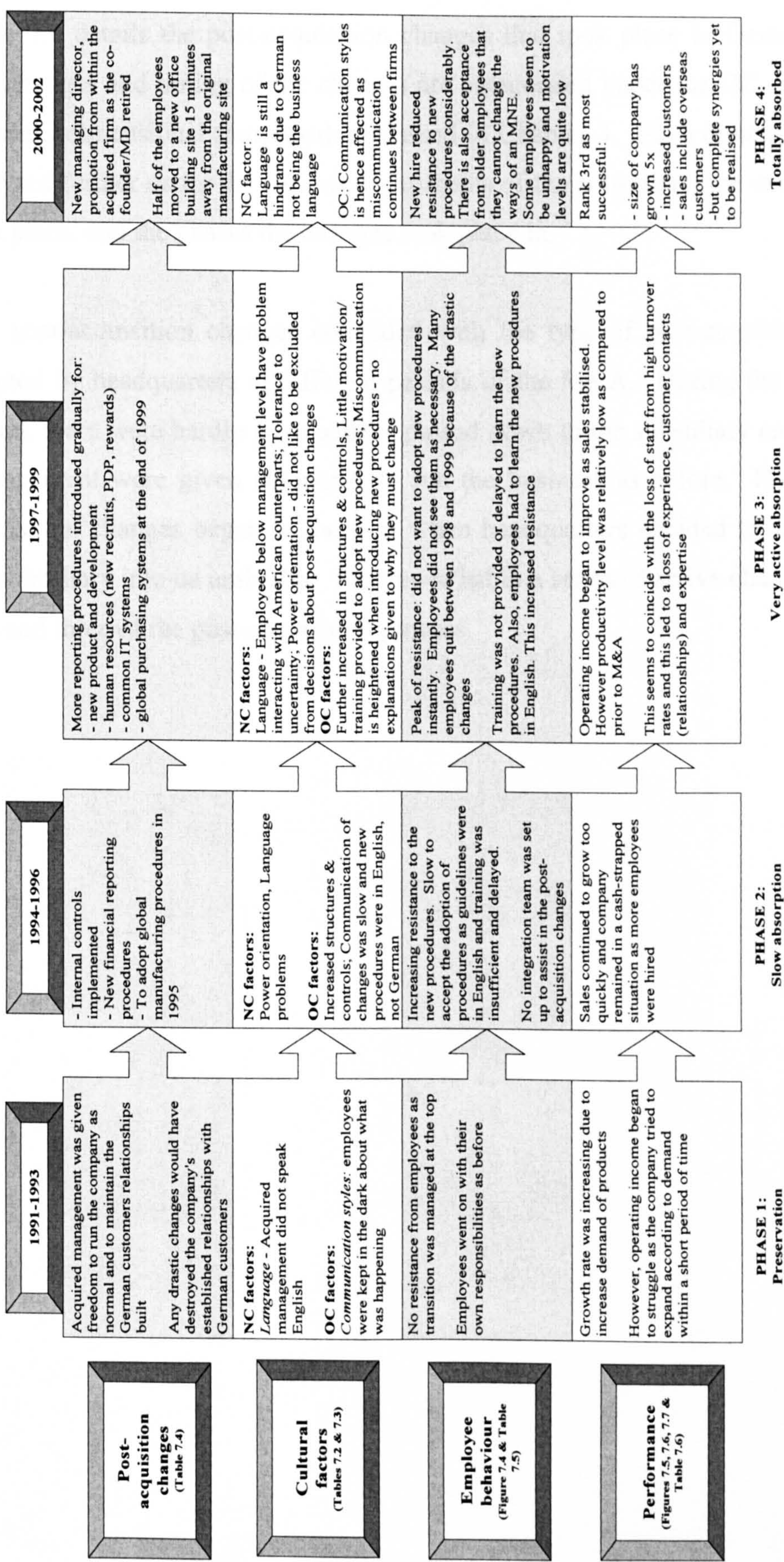
This M&A is classified as domain strengthening because First Automotive acquired a similar business activity – vehicle security market- for its product portfolio. According to Haspeslagh and Jemison (1991), this type of M&A requires the adoption of an absorption strategy for post-acquisition management. Although this strategy was adopted eventually, the initial strategy adopted in this M&A was that of the preservation mode. This strategy lasted for the first three years of the M&A.

A summary of the post-acquisition management of this case is seen in Figure 7.3. This figure discusses the M&A under four sub-sections: 1) the timing and types of post-acquisition changes, 2) cultural influences, 3) employee behaviour in German Security, and finally 4) the performance variances of the subsidiary since the M&A. Then, each sub-section is analysed according to the four phases of post-acquisition management that took place between 1990 and 2002: preservation, slow absorption, very active absorption and total absorption.

German Security was the headquarters' first acquisition in Europe and hence they had very little experience in managing the post-acquisition stage. This inexperience was very evident among the management and employees at the subsidiary as was pointed out during the interviews. According to several interviewees, there was no evident plan on what headquarters wanted to do with the subsidiary after the deal was carried out.



Figure 7.3: Post-acquisition management of German Security



Source: Author, based on interviews and field survey conducted in German Security and First Automotive in 2002



### ***7.3.1 Post-acquisition changes***

Table 7.4 details the post-acquisition changes that took place in German Security. The changes and timing of the changes are categorised under the OC dimensions of the multi-dimensional framework discussed in Chapter 3. Each dimension has been analysed further under the various departments of the subsidiary, the area of changes took place, and the phases the changes took place in.

The post-acquisition changes coincided with the type of post-acquisition strategy adopted by headquarters at different periods of the M&A. During the preservation period, there were hardly any changes passed down to the subsidiary as the acquired management were given autonomy to run the business as before. However, post-acquisition changes began to increase when headquarters decided to slowly absorb the subsidiary into its umbrella. This move led to a series of active changes in phases two and three of the post-acquisition process.



Table 7.4: Post-acquisition changes in German Security

OC dimensions	Departments involved	Areas of changes	PHASE 1: <i>Preservation;</i> 1991-1993	PHASE 2: <i>Slow absorption;</i> 1994-1996	PHASE 3: <i>Very active absorption;</i> 1997-1999	PHASE 4: <i>Total absorption;</i> 2000-2002
			0-2 years	3-5 years	6-8 years	> 9 years
Goal & value alignment	Overall	More financial, less strategic primary orientation			✓	✓
		Retention of decisions about company scope/direction			✓	✓
		Retention of decision about major contracts			✓	✓
		More short-term oriented			✓	✓
Structures & controls	Overall	More levels of hierarchy			✓	✓
		More formalized planning			✓	✓
		More centralised decision-making			✓	✓
		More use of automation/IT			✓	✓
	Finance	More use of parent financial control systems		✓	✓	✓
		Capital expenditures requires final approval by parent company		✓	✓	✓
		More cost control systems		✓	✓	✓
	R&D	Retention of decisions of new products			✓	✓
		New product development procedures			✓	✓
		More implementation of TQM			✓	✓
Communication styles	Purchasing	Less development on new products			✓	✓
	Overall	New global purchasing procedures				✓
		More top-down style			✓	✓
		More formal meetings		✓	✓	✓
		More open form of communication			✓	✓
		More explicit in terms of written documents such as procedures		✓	✓	✓



<b>Interpersonal relations</b>	<b>Sales &amp; Marketing</b>	Less customer involvement			✓	✓
		Less offering of unique products/services				✓
		Communication between parent & acquired subsidiary	Indirect. Not very clear about goals		Very weak link	Much stronger relationship
<b>Motivation, staffing, training</b>	<b>Human Resource</b>	Implementation of group working/work teams			✓	✓
		Less ad hoc career development			✓	✓
		Increased formalised training			✓	✓
		More performance related rewards			✓	✓
		More centralised strategic decision-making			✓	✓
	<b>Overall</b>	More than one manager to report to (matrix)			✓	✓
		Managing director appointed by parent company				✓
		Finance manager appointed by parent company				✓
		HRM manager appointed by parent company				✓
		Engineering manager appointed by parent company			✓	
<b>Leadership orientation</b>	<b>Marketing</b>	Marketing manager appointed by parent company				✓
	<b>Purchasing</b>	Purchasing manager appointed by parent company				✓

Source: Author, based on interviews conducted in German Security and First Automotive in 2002



### 7.3.2 *Post-acquisition behaviour*

The employee behaviour coincided with the extent of post-acquisition changes implemented in the subsidiary. This is seen in Figure 7.4. The levels of resistance have been classified according to the four post-acquisition phases for this M&A.

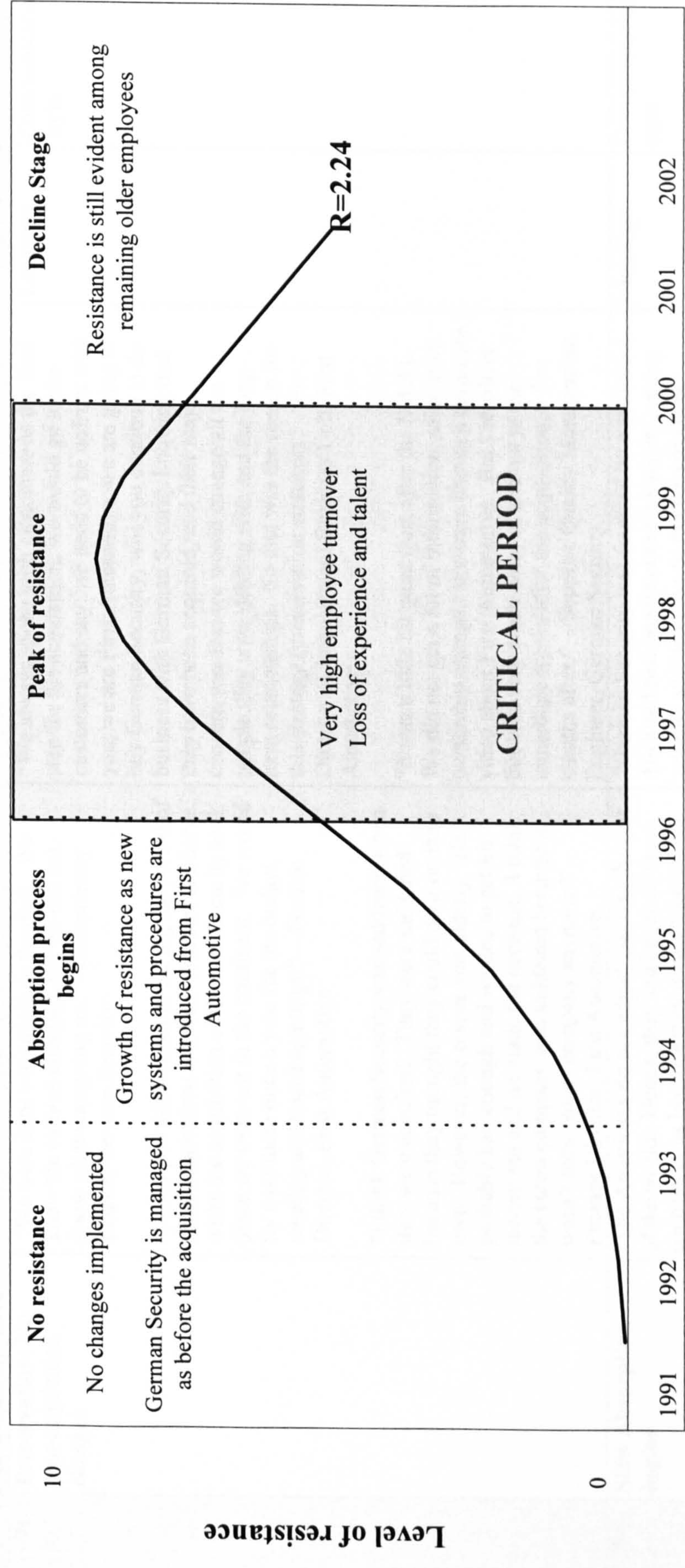
The perceptions of the First Automotive interviewees were that German Security put up the highest level of post-acquisition resistance. Although it has decreased since, the level of resistance remained very high for a longer period of time as compared to the other three cases under study. In addition, the resistance was not only confined to the management level of the acquired subsidiary, but was also evident from the employees at the lower ranks of the hierarchy. This is reflected in the resistance formula created by the current author (as discussed in Chapter 5, Figure 5.11). The score of  $R = 2.24$  indicates that as of 2002, there was still some form of resistance to the acquirer. This shape of the curve in Figure 7.4 provides a perception of how high resistance might have been in the earlier post-acquisition phases.

The rationale for this employee behaviour can be attributed to the major differences in culture between the firms and the respective countries seen in earlier sections. Resistance was high mainly because of: 1) inexperience from headquarters to deal with changes; 2) language barriers coupled with very poor communication channels set up to disseminate information about the new owners' plans which fuelled rumours and caused fear among employees; 3) intolerance to changes from the Germans; and 4) the Americans' attitude that the subsidiary must make all the changes without question.

As noticed, the resistance from the Germans stems from the differences in cultures between the firms and the countries. Relevant interview quotes on how culture influenced employee behaviour are seen in Table 7.5. This table displays how culture played its role in (the adoption of) the employee behaviour in this M&A according to the four identified post-acquisition phases, and how headquarters managed the differences, resulting in either a positive or negative impact.



Figure 7.4: Differing levels of resistance during the post-acquisition



Source: Author, based on NC and OC dimensions means scores, where  $R = 10$  represent highest level of resistance and  $R = 0$  represent lowest level of resistance (Refer to Figure 5.11 for formula of resistance)



Table 7.5: Cultural influences on resistance

Year	Post-acquisition phase & resistance	Evidence from interviews	First Automotive management of phase	Cultural interactions involved	
				NC	OC
1991-1993	Preservation: No post-acquisition changes	“We were kept very much in the dark. We knew the owners changed, but we did not know what was going on.” - Competency Leader, German Security	“We always spoke with customers as the final step for the acquisition, we would go to the customers and say: we need to be upfront with you, we are First Automotive, we are going to buy German Security, will you continue to do business with German Security knowing that they have been acquired, and their major concern was that we would change all the people they were dealing with and the long-term relationships. So that was the reason for this strategy (preservation strategy).” – Ex-Director of International Business Unit, First Automotive	Language	Communication style
		“When you think about it, during the period of these acquisitions we were absentee landlords, when the acquisition of German Security took place we were not in the continent. We would fly over there once a year for the budget meeting and board meetings.” – Finance Director, First Automotive			
1994-1996	Slow Absorption begins	“I think German Security was saddened when they were acquired. They were saddened because they thought they could do it on their own. However, the owner was elderly. He probably had enough and wanted to get his money out and he made the decision. I think the entire company was saddened because it wasn’t their ‘own’ company anymore.” – Finance Director, First Automotive	“It was a little bit quiet (just after the M&A). We did not get a lot of information, aside from ownership change. We were shown a corporate video about First Automotive. But I recollect this was very much delayed and not in the immediate weeks after the acquisition, a few months after.” – Supplier Quality Management Engineer, German Security	Language	Communication style
		“The Americans do not adjust much to the rest of the world. Hence, they send over all these controls to us because they do not trust us, the local people, to do our jobs. So, they want to control everything we do. This is how many of us see it. We are not trusted.” - Plant Manager, German Security			
				Power orientation	Leadership style
				Tolerance to	Structures &



		<p>“...let’s say we were frustrated about these new strange processes because we did not understand them. I would say maybe the processes are beneficial for a company that has 10,000 employees, but for our small company of 500 to 600 employees, the processes are not necessary.” -Project Leader, German Security</p>	<p>individuals and eventually the both of them left. One left fairly quickly, within a couple of years. The other we actually put in on our staff, in charge of purchasing, but he eventually left, he did not want to work for First Automotive.” – Finance Director, First Automotive</p> <p>“Over time, we would then go into the integration of functional competencies. Now, I mean, this was where we started to utilise the First Automotive’s policies and procedures and this was the most difficult stage. Then was a transition that we definitely went through, and it was conscious. We knew at the beginning that we did not want immediate absorption because of what the customers told for the concern of the personnel and the acquisition. They would have all left if we tried to run it from the beginning.” – Ex-Director of International Business Unit, First Automotive</p> <p>“Maybe it is the management of this company, people just take the processes from the American HQ and maybe adapt it, but hardly ever, they just throw these new processes at us and we the employees are left to adapt to our daily routines.” - Project Leader, German Security</p>	<p>uncertainty and other cultures</p>	<p>controls</p>
1997-1999	<p><b>Active Absorption:</b> Peak of resistance from management and</p>	<p>“Some procedures do not make sense for us because very often we find that some of their procedures do not work with our local</p>	<p>“It was a communication problem. Nothing is usually said from First Automotive such as explanations or why it is necessary to have this</p>	<p>Language</p>	<p>Communication style</p>



	employees	<p>procedures. For example, we have our own quality handbook to follow, and we have their quality procedures handbook. What First Automotive does not understand is that the European customers demand a much higher quality than what is written in the First Automotive handbooks. Hence, there is a conflict in the procedures. It does not make much sense for us to use First Automotive's quality procedures because our European customers will reject our products due to lower quality." - Quality Supervisor, German Security</p> <p>"The problem is we work for 8 to 10 hours a day, working quite hard at our jobs. But at the end of the day we go home and ask ourselves what we have done for that day, we realize that we made a lot of phone calls, a lot of emails, and filled up a lot of paperwork. The actual design of the hardware or product, nothing was done that day and this is a very typical day. Many engineers want to design and develop products not fill in paperwork, so there is a lot of unhappiness and many have left because of this problem." -Project Leader, German Security</p>	<p>or that procedure. We were expected to just follow the 'orders' if I may say. That is not how we Germans work. We have to see the logic behind each change before we can do it or attempt to do it." Quality Manager, German Security</p> <p>"There was something called PDP98 (motivation, staffing &amp; training package) that involves about 840 steps from product idea to design to production. This of course encountered a lot of resistance as German Security's own process was not as robust, so there were a lot of fights, resistance to implement the steps." - European HR Director, First Automotive</p> <p>"A lot of people quit. We hired a lot of new people fresh from university, brought in fresh blood, and they did not have any relationships with customers, did not know the work, and a lot of errors were committed at that time between 1998 and 2000. It was a very critical period." - Project Leader, German Security</p>	<p>Power orientation</p> <p>Tolerance to uncertainty and other cultures</p> <p>Masculinity vs. femininity</p>	<p>Leadership style</p> <p>Structures &amp; controls</p> <p>Motivation, staffing and training</p>
2000-2002	<p><b>Almost complete absorption:</b> Acceptance for most but some resistance remain among older or original employees</p>	<p>"We understand that they want global common processes. However, processes cannot be shifted directly and exactly from one country to another. They cannot just shift their American processes on us and all over the world. It just does not work. But they do</p>	<p>"No. I do not think the integration process has been completed. My guess is from the time I have retired, 18 months now, but when I left Europe, we were still going through that process. That was the most difficult step as we went forward to make this transition. A lot of</p>	<p>Language</p> <p>Masculinity vs. femininity</p>	<p>Communication styles</p> <p>Motivation, staffing and training</p>



	<p>not care; they just want us to do as they want.”</p> <p>- Competency Leader, German Security</p> <p>“...the new people that just come out of university get used to the new procedures. But if you are used to doing things in a certain way which seem faster for the customers, it is difficult to adapt to the new procedures...” -</p> <p>Project Leader, German Security</p>	<p>these could not have happened until you have a natural change for some of the personal management structure.”—Ex-Director of International Business Unit, First Automotive</p>		
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Source: Author, based on interviews conducted at German Security and First Automotive in 2002



7.4 OVERALL PERFORMANCE OF M&A

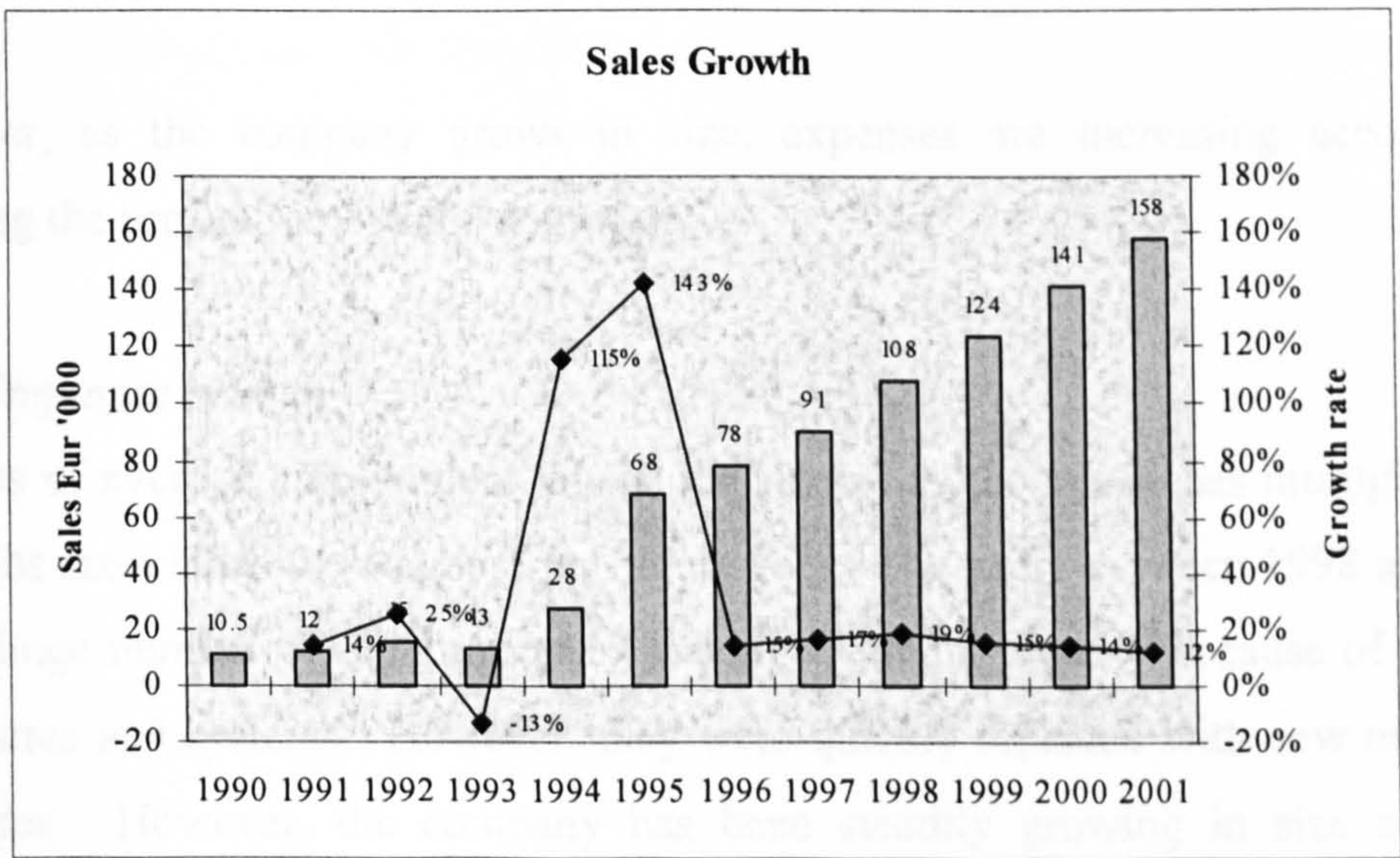
The performance for German Security after the M&A varied accordingly to various factors such as economic, technological and to a certain degree the impact of the integration process. This section looks at the performance figures of sales growth, operating income, employee growth and the manufacturing efficiency metrics over the past ten years of post-acquisition management.

Figure 7.6: Sales growth for German Security

7.4.1 Sales growth

When the M&A took place, sales were relatively small at about 12 million euros. For the next three years during the preservation phase, the sales growth was constant. However, in 1995, sales grew quickly and this was due to the introduction of a new product, immobiliser, and there was a surge in demand for it. This meant that the company suddenly faced a huge cash shortage because they did not have the capability to meet the demand in a cost efficient manner. The organisation grew too quickly in the next two years. Growth has since stabilised at an annual average of 15% between 1997 and 2001 (See Figure 7.5)

Figure 7.5: Sales growth for German Security



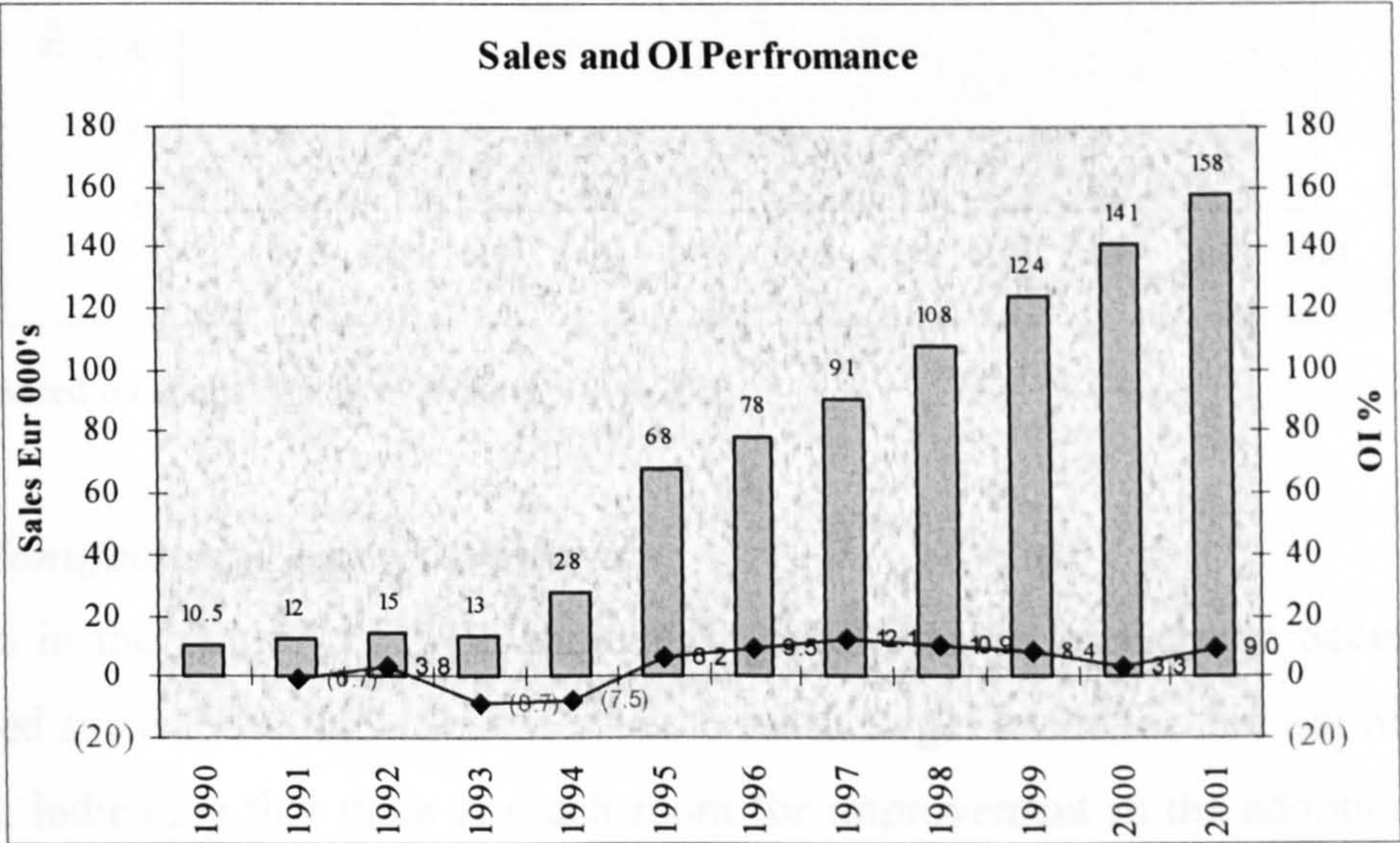
Source: Based on company annual financial reports, 1990-2001



7.4.2 Operating income growth

The operating income of German Security has improved significantly since 1991 from minus 0.7% to 9% in 2001 (Figure 7.6). This shows that the company has been successful in the post-acquisition stage and that it is performing well. The US parent has turned a cash-strapped German Security into a profit-making organisation.

Figure 7.6: Operating income for German Security



Source: Based on company annual financial reports, 1990-2001

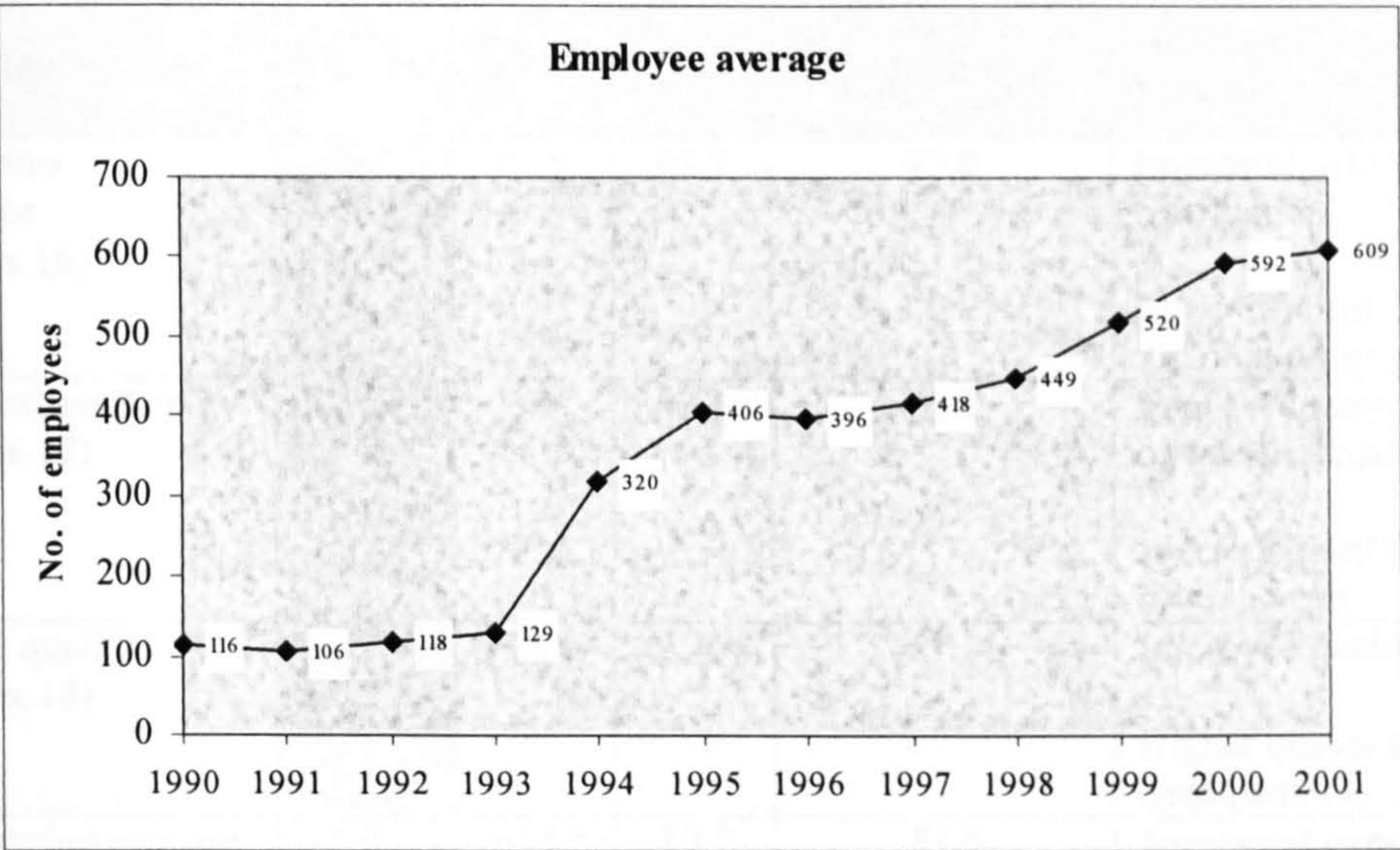
However, as the company grows in size, expenses are increasing accordingly, affecting the profitability of the company.

7.4.3 Employee growth

In terms of average employment levels, the size of the company has multiplied five times (its size) since the acquisition (Figure 7.7). The years between 1998 and 2000 saw a huge number of old employees leaving German Security because of the new procedures and systems. However, they were quickly replaced with new university graduates. However, the company has been steadily growing in size since the acquisition, proving once again that the acquisition has been successful.



Figure 7.7: Employee growth for Germany Security



Source: Based on annual financial reports, 1990-2001

7.4.4 Manufacturing metrics analysed

As seen in the Table 7.6, the manufacturing performance of German Security has improved since 1999. However, it is yet to reach target levels for five out of the six metrics, indicating that there is much room for improvement in the adoption of the headquarters’ procedures and policies. This is also an indication that the post-acquisition changes have not been fully adopted successfully by the subsidiary.

But it is interesting to note that this subsidiary performed better in four of the metrics -- ship window compliance; operational availability; first-time quality; and manufacturing expense percentage of sales – then the US headquarters manufacturing facility.



Table 7.6: Manufacturing performance for German Security

Selected manufacturing metrics	Target	1999	2002	First Automotive 2002	Analysis for German Security
Ship window compliance (Appendix 16)	100%	93.8	99.7	97.0	Improved delivery and distribution  More efficient distribution system
Operational availability (Appendix 17)	> 98%	90	93.4	72.2	Improved usage of operational resources  More efficient than headquarters
First time quality (Appendix 18)	< 20,000	58,689	26,138	62,371	Improved quality levels  Higher quality than headquarters
Manufacturing expense % of sales (Appendix 19)	< 20.5%	10.5 *	10.7	51.6	<b>Increased expenses</b>  More cost-efficient than headquarters
Returned parts per million (Appendix 20)	< 20	61	36	7	Improved quality parts  Not as effective as headquarters
Lost workday case (Appendix 21)	< 0.15	0.29	0.22	0.10	<b>Yet to reach target levels</b>
Notes: * 2001 figure					

Source: Based on First Automotive annual analysis since 1999

7.4.5 Synergies achieved

The main motive of this M&A was to acquire a foreign manufacturing facility to gain access to the German customer base (so as to increase market power) and to utilise the German technology and skills available. Hence, the synergies that have been achieved or yet to be achieved from this M&A have been categorised into whether the headquarters and the subsidiary shared operational resources; and whether there has been a transfer of functional and management skills.

Sharing operational resources

- Sharing distribution channel: instantly captured for First Automotive as it immediately had access to the German distribution network;
- Sharing global purchasing resources was not captured until 2001;



- According to the interview respondents from both companies, operational synergies are yet to be fully captured and will take another couple of years or more; and
- The sharing of operational resources between German Security and French Security (a similar business within the umbrella, see Chapter 8) is increasing. However, this only began after 2000, even though both companies have been under the headquarters umbrella for more than nine years.

### **Transfer of functional skills**

- Little synergy captured for functional skills until 2000, due to the critical period between 1996 and 2000 where many employees quit and took their experiences and customer contacts with them. These employees refused to learn and adapt to the headquarters' procedures, policies and rules. Therefore this synergy has only begun to be captured since 2000; and
- Since the employment of new staff in 2000, transfer of functional skills has improved drastically as there was less resistance to learning a new procedure or policy.

### **Transfer of management skills**

- Not transferred at all during the first phase, due to the preservation strategy adopted. Transfer of management skills increased with time as more absorption took place; and
- In 2002, management from headquarters visited the German Security site to learn from them on managing a successful manufacturing facility. The M&A is finally becoming a two-way learning process after thirteen years.

## **7.5 CONCLUSIONS**

This chapter looked into detail the case study of German Security, the first European M&A conducted by First Automotive. The chapter discussed a brief history of the company prior to the M&A and the motives of the M&A, followed by an analysis of the four post-acquisition phases of German Security. A major weakness in the post-acquisition management in this case study was the lack of headquarters experience,



and also the lack of an on-site integration team to assist the management and employees at the subsidiary in learning, understanding and adapting to the post-acquisition changes.

The management style adopted by First Automotive in implementing changes was a top-down approach. The most obvious changes throughout the entire post-acquisition process were increased, reporting procedures such as new product development procedures, increased paperwork and tighter controls. The changes took place in four phases and the influences of culture and level of resistance varied accordingly. This M&A experienced one of the highest levels of resistance behaviour from the employees and there was a high turnover rate during phase three of the post-acquisition process. There is some degree of success in this M&A and it has been rated as the third most successful M&A in this research.

7.5.1 Research questions answered

This concluding section answers the research questions discussed in Chapter 4.

1-i) Which cultural dimensions influence the post-acquisition process?

Cultural dimensions	Phase 1	Phase 2	Phase 3	Phase 4
<b>National dimensions</b>				
Individualism vs. collectivism (+ve)		√		
Language (-ve)	√	√	√	√
Time orientation (+ve)		√		
Tolerance to uncertainty and other cultures (-ve)	√	√	√	
Power orientation (+ve)		√	√	
Masculinity vs. femininity (+ve)		√	√	√
<b>Organisational dimensions</b>				
Goal and value alignment (+ve)		√		
Structures and controls (+ve)		√	√	
Leadership style (-ve)		√	√	
Communication style (-ve)	√	√	√	√
Interpersonal relations (-ve)	√	√	√	
Motivation, staffing and training (-ve)		√	√	√

Notes: -ve represents negative influence; and +ve represents positive influence



**2-ii) Do NC and OC interact during the post-acquisition process?**

This case showed that there were interactions between NC and OC dimensions and these influenced the post-acquisition process and the behaviour of the employees in the firm (see table below).

Interactions between		Phase 1	Phase 2	Phase 3	Phase 4
NC	OC				
Individualism vs. collectivism	Leadership styles; Motivation, staffing and training		√		
Language	Communication style	√	√	√	√
Time orientation	Goal and value alignment		√		
Tolerance to uncertainty and other cultures	Interpersonal relations	√	√	√	
Power orientation	Leadership style		√	√	√
Femininity	Motivation, staffing and training		√	√	√

**2a-i) How do differing NC and OC interaction influence the post-acquisition behaviour?**

There were substantial contrasts in this M&A, both in NC and OC. The major NC differences and influences on the post-acquisition process between Germany and US were language, power orientation and tolerance to uncertainty and other cultures. The interactions of NC and OC were as follows: power orientation affected leadership styles; language differences affected communication styles; and tolerance to uncertainty and other cultures affected interpersonal relations between management and employees. These resulted in some power struggle, lots of miscommunication and very poor relationships between the companies, which heightened in phase three of the process, reflecting the peak of the resistance levels.

headquarters, the differences were highlighted even more. In this case, both firms

It was reported by the headquarters that this M&A displayed a very high level of resistant behaviour as compared to the other M&As. The reasons for this could be attributed to the large contrast in OC and NC between the firms and the countries. These factors influenced the acceptance of the differences in the post-acquisition management process. There was very little acceptance from the two sides of the differences of the other.



**2a-ii) How does the acquirer manage these interactions and resulting behaviour?**

Being the first acquisition it ever undertook, there was very little experience in dealing with the post-acquisition process. This was evidently seen in the attitude the management took – a so-called ‘cowboy approach’ (as quoted by the European HR director of First Automotive). This approach means that the acquirer expected the subsidiary to adopt all the changes it wanted without question or much reasoning provided. If they did not, they were ‘punished’ accordingly. The Germans did not accept this as they were not used to changes and were very apprehensive of the motives for the changes. As a result, many employees were replaced with new hire in phases three and four and since then acceptance of the acquirer has increased.

**2c-i) Are cultural differences related to the cross-border performance?**

This M&A was ranked third when the management were asked to evaluate the degree of success of all its four M&As. This suggests that the bigger the differences between the firms and the countries in terms of OC and NC respectively, the more difficult it is to manage a cross-border M&A successfully.

**2c-ii) In what ways are cultural differences related to cross-border performance?**

When the two firms had to deal intensely with the NC and OC differences (i.e. working with each other in the implementation of new procedures from headquarters), the differences were highlighted even more. In this case, both firms were very stubborn in their ways of doing things and refused to accommodate each other. This resulted in the longer process of achieving synergies until phase four.

The next chapter discusses the second M&A conducted by First Automotive. This was an acquisition into a similar industry as German Security, except that it took place in France.



## CHAPTER 8: ACQUIRING INTO FRANCE

### 8.0 INTRODUCTION

This chapter looks at the second European M&A conducted by First Automotive. It was an acquisition into the French vehicle security market. This was a *domain strengthening* M&A for First Automotive as it bought a competitor in the French market in order to enter a new geographical market and gain greater market power in the vehicle security market. The technology purchased was similar to that of German Security. Table 8.1 highlights the characteristics of the interviewees and a brief profile of their background for this case study.

Table 8.1: Interviewees’ profiles for French Security

Classification of interviewee	Company	Position held in company	*No. of years in service
Strategists	First Automotive, US headquarters	Retired Director of International Business Unit	30
		Assistant Finance Director	25
	French Security	Managing Director	4
Implementers	First Automotive, European headquarters	European HR Director	5
		European Finance Director	2
	French Security	Finance Manager	5
		HR Manager	1
		R&D Manager	1
		Marketing Manager	4
		Purchasing Manager	4
Receivers	French Security	R&D Engineer	9
		Quality Engineer	9
Total number of interviewees for this case		12	
*Number of years in service as of 2002			
Note: Analysis of case study also includes the comparison of survey results of NC and OC between French Security and First Automotive			

Source: Author

### 8.1 BACKGROUND OF M&A

French Security was a family-run business founded in 1976. Its main business was undertaking installations and repairs in the aftermarket business and its secondary business was producing security systems for OEMs. It had a well-known brand: French Security alarm.

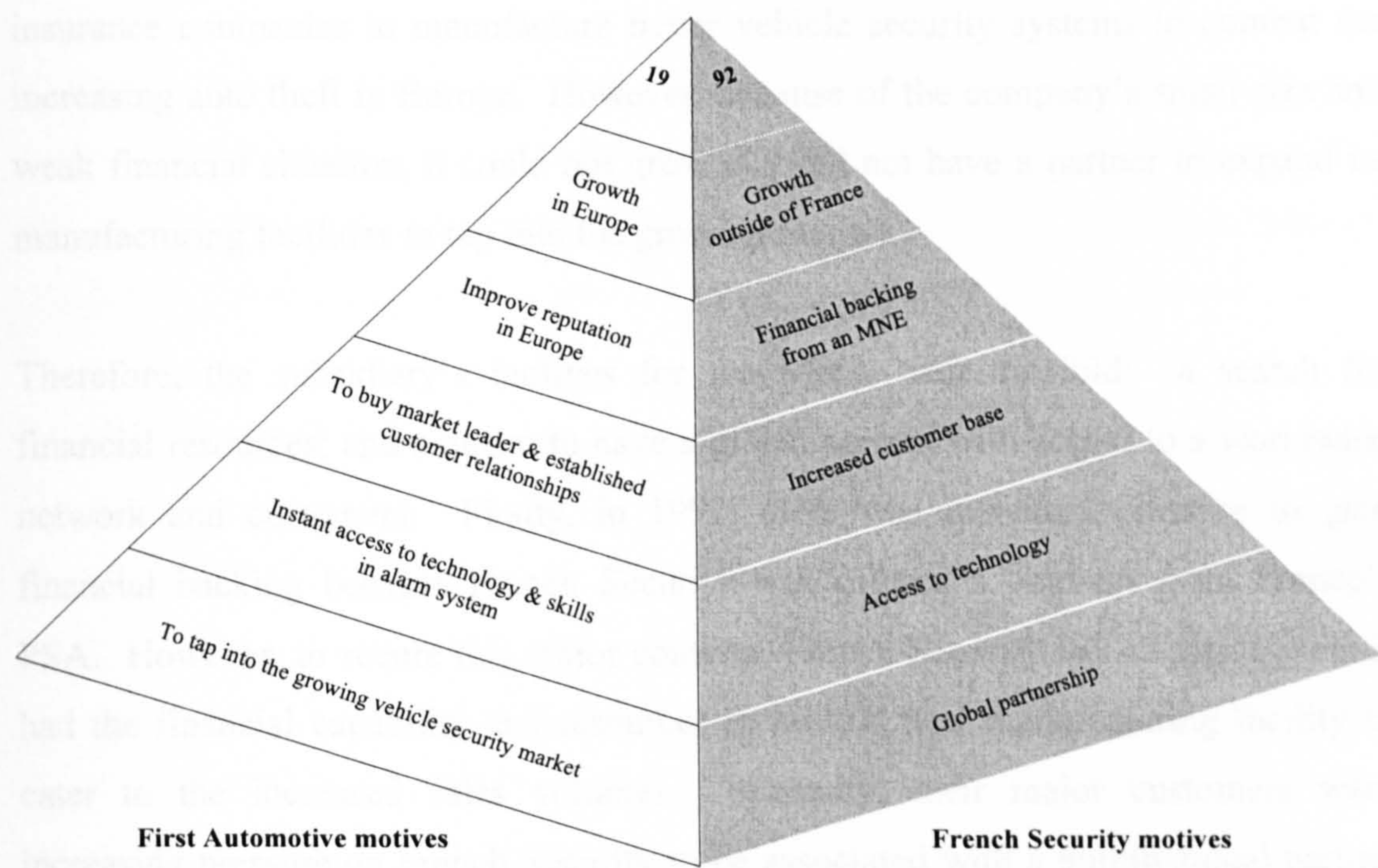


Since the M&A in 1992, the company gradually shifted focus towards the vehicle security market, and eventually eliminated its aftermarket business in 2001. Today, its business activities consist of manufacturing complete alarm systems, central door locking, sirens, wiring looms, radio remote control systems etc., for automobiles. The company has 20% of the OEM market share in France and its main competitors are Siemens (19%) and Motorola (8%). Their customers include Renault, Peugeot, and Citroën.

8.1.1 Motives for M&A

First Automotive acquired French Security for USD 9.6 million in November 1992. The motives for this acquisition are summarised into Figure 8.1. This figure analyses the motives from both the headquarters and the acquired subsidiary points of view.

Figure 8.1: Motives for acquiring French Security



Source: Author

First Automotive had strategic reasons for acquiring French Security. They wanted a foothold in the growing French market for vehicle security systems. A survey conducted by the company back in the early 1990s, noted that Europe had a



substantial increase in car break-ins and thefts and as a result, sales of vehicle security systems were expected to increase. French Security was targeted because it was the aftermarket leader of car alarm systems with a 35% market share and 10% overall share in Europe. It also had a good brand image among the French OEMs.

There were three strategic advantages for acquiring into the French vehicle security market including: 1) a complement for German Security anti-intrusion systems and First Automotive vehicle anti-theft systems; 2) access to Southern European OEMs that would help sell other First Automotive products; and 3) cost savings between headquarters, French Security and German Security with potential rationalisation of product development, purchasing, manufacturing, marketing and sales.

Analysing the French market situation in the early 1990s, there were opportunities for French Security to grow (Figure 8.2). There was the increasing pressure from the insurance companies to manufacture better vehicle security systems to combat the increasing auto theft in Europe. However, because of the company's small size and weak financial situation, it could not grow if it did not have a partner to expand its manufacturing facilities to tap into the growing market.

Therefore, the subsidiary's motives for the M&A were twofold: a search for financial resources; and a desire to have a global partner with access to a worldwide network and customers. Firstly, in 1992, there was increased pressure to gain financial backing because French Security was offered a contract from France's PSA. However, to secure this major contract, French Security had to display that it had the financial capability and resources to build a new manufacturing facility to cater to the increased sales volumes. Secondly, their major customers were increasing pressure on French Security to be associated with a multinational partner for access to the know-how of the OEM business. This is supported in the following quote by an engineering manager when questioned on why French Security sought to be acquired:

*"By being acquired by First Automotive, French Security proved to PSA that it had the financial backing and assured PSA that French Security*



would not go bankrupt now that it has a major partner in the OEM business.”

Engineering Manager, French Security

Figure 8.2: SWOT analysis for First Automotive in acquiring French Security

<b>STRENGTHS</b> <ul style="list-style-type: none"><li>▪ Entrepreneurial</li><li>▪ Flexibility</li><li>▪ Aftermarket experience</li><li>▪ Brand image</li><li>▪ Successful transition to OEM</li></ul>	<b>WEAKNESSES</b> <ul style="list-style-type: none"><li>▪ Small with limited resources</li><li>▪ Limited OEM business</li><li>▪ Lack of global presence</li><li>▪ Engineering capability to support both OEM and aftermarket</li><li>▪ Ability to manage growth</li></ul>
<b>OPPORTUNITIES</b> <ul style="list-style-type: none"><li>▪ Larger customer base</li><li>▪ Larger technology base</li><li>▪ Increased in auto theft</li><li>▪ Access to innovative technical cost effective solutions</li><li>▪ Insurance companies’ pressure for better security in vehicles</li></ul>	<b>THREATS</b> <ul style="list-style-type: none"><li>▪ Currency fluctuation (Italian competitors)</li><li>▪ Decrease aftermarket in future years</li><li>▪ Possibility of unsuccessful integration</li><li>▪ Stronger competition</li></ul>

Source: Author, based on interviews and archival data

Therefore, to sum up this section, First Automotive acquired French Security because it was a market leader in the French market; it was a small company with flexibility and it had a good brand image among the OEMs in France. As for French Security, it wanted a global partner with financial backing to generate business growth.

8.1.2 Challenges in this M&A

The main challenges that occurred in the post-acquisition process of this M&A can be summarised as follows:

- This was First Automotive’s second M&A into Europe and its first into France. The US management was still highly inexperienced in managing the post-acquisition process and as in German Security, there was no integration plan.
- The acquirer faced a huge barrier of resistance when it began passing down post-acquisition changes to the acquired subsidiary. These changes included implementing the common worldwide systems concerning manufacturing processes and new product development. These were also faced in German Security and German Antenna.



- Clash of cultures which contributed to the high level of resistant behaviour seen in the acquired firm. The differences between the American and French national cultures continue to be a source of cultural related problems;
- Post-acquisition resistant behaviour was experienced initially among the top management and at the employee level in later sub-phases of the post-acquisition process; and
- Synergies in this M&A are yet to be fully realised.

This company has not grown in size since the acquisition in 1993. It displayed the highest level of post-acquisition resistance and is the least successful M&A in this study.

## **8.2 COMPARISON OF CULTURAL DIMENSIONS**

This next section first discusses the differences of organisational culture (OC) followed by the national culture (NC) between the two firms and their general influences on the post-acquisition process. Mean scores were allocated to each dimension based on survey findings and interview data (Appendices 4 to 15). Each dimension is also analysed on how it influenced the post-acquisition process with supporting interview quotes.

### ***8.2.1 OC Dimensions***

There were some similarities and distinct differences between First Automotive and French Security in terms of organisational culture. The differences can be traced back to the basic difference that one is a large multinational firm and the other is a small, entrepreneurial local firm. Table 8.2 displays the dimensions discussed in Chapter 3 and analyses the differences between the two firms according to the evidence from the survey (means) and interviewee data.

There was a similarity in the dimension of structures and controls as indicated with the small difference in mean scores in Table 8.2. Both firms had the same hierarchical structure with a centralised decision-making process. This similarity eased the implementation of post-acquisition changes in the later phases of the process, as the employees in the subsidiary did not question authority.



However, the OC differences were very evident during the post-acquisition process and this was mostly due to the corporate culture of French Security being a small and family-orientated company. For example, formal procedures for human resource management, new product development or financial reporting did not exist. This is best summed up in the next quote:

*“France was much less structured, not many laws, and in many respects more creative than the Germans.”*

Director of International Business Unit (retired), First Automotive

Refer to Table 8.2 for more details of the similarities and differences between the two firms.



Table 8.2: OC influences on the post-acquisition process

Organisational culture dimensions	First Automotive	French Security	Evidence from interviews, questionnaire responses and observations	Influences on the post-acquisition process
<b>Goal and value alignment</b> (Refer to Appendix 4 for mean score calculation 0 represents large MNE characteristics; 10 represents small entrepreneurial characteristics)	<i>Overall mean: 4.00</i> Bureaucratic MNE Short-term orientation	<i>Overall mean: 7.90</i>	<p>“We are highly focused on our customer here. We want to meet their specifications and are willing to adapt to them.” Managing Director, French Security</p>	<p>“Both have targets to work towards to. However, maybe the American way is to set the goal and then you have a clear and detailed way of how to achieve that. The French would not work in that detail to achieve their goals.” – Finance Manager, French Security</p> <p>“I would not say underhand dealing. However, you had a big MNE with a strong governance policy and a private company that does not fit that profile. They used to do things their own way, total autonomy. For example, like making payments to customers or suppliers that would be inappropriate for us or having inappropriate advertising campaigns. Since we cannot change the way people are, we changed the people.” – European HR Director, First Automotive</p>
<b>Structures and controls</b> (Refer to Appendix 5 for mean score calculation 0 represents unstructured, informal and few controls characteristics; 10 represents highly structured, formal and controlled characteristics)	<i>Overall mean: 9.17</i> Centralised decision making Process-oriented Strict controls over employees (e.g. internet,	<i>Overall mean: 5.31</i> Hierarchical structure Centralised decision-making No controls for R&D, had the freedom to innovate,	<p>“The procedures are good. It provides structure in the way we work. Only point is that it is a little heavy.” - Project Leader, French Security</p> <p>“When you consider IT tools First Automotive has a very complex system which links all information together in the IT system which allows them to do their job. But we started integrating into First Automotive, we do not have those IT tools</p>	<p>“The acquired management was very protective and wanted to be totally independent from First Automotive. They did not want to be involved in First Automotive policies and procedures, so they ignored them.” - Finance Manager, French Security</p> <p>“We do not have the money or finances to adopt the new processes as quickly as we like to. We do not receive enough support from First Automotive in this aspect.” -</p>



	personal telephone calls, etc.)	trial and error mentality  Not process-oriented	but the new procedures require that we need those tools, so it is difficult to accept the new procedures as we have to work a longer way around to achieve the same purpose.” - Purchasing Manager, French Security  “The French are not as processed-oriented as the Americans. There is much less structure in doing things in France. However they are more innovative here than in America and that makes up for it.” – Finance Manager, French Security	Engineering Manager, French Security  “The French try to avoid heavy reporting.” - Finance Manager, French Security  “The main obstacle in my mind is the complexity of the organisation of First Automotive. The organisation is matrix, it is not easy to integrate, probably the most complex. It is easy to get confused and lost especially for a new employee.” - Managing Director, French Security  “French Security is less organised, has less structure. We are trying to implement a new process and it is taking longer in France as compared to Germany.” – European Finance Director, First Automotive
<b>Leadership orientation</b>  (Refer to Appendix 6 for mean score calculation  0 represents abdicate leadership; 10 represents autocratic leadership)	<i>Overall mean:</i> 4.78  Top-down approach	<i>Overall mean:</i> 7.98  Autocratic & hierarchical	“Before it was a one-man private company. The managing director was the founder of the company. He knew all the products inside out and had tremendous influence on his employees.” – Finance Manager, French Security  “Our manager just tells us to do things. No opinion asked. No feedback given if a job is well done. There is no discussion on it. Just apply.” – Project Leader, French Security	“The French are pretty hierarchical. The boss can do whatever he wants, if he asks you to do something, the employee will do it without question.” - European HR Director, First Automotive
<b>Communication styles</b>  (Refer to Appendix 7 for mean score calculation)	<i>Overall mean:</i> 6.34  Formal	<i>Overall mean:</i> 5.72  Formal	“No feedback asked. Just do as you are told.” - Project Leader, French Security	“People often mixed what they imagine were being said and what was really said in meetings in this firm and between us and headquarters.” – Marketing Manager, French



<p>0 represents informal and less structured style; 10 represents formal and high structured style)</p>	<p>Open-door policy Low context</p>	<p>Closed-door policy High context</p>	<p>Security</p> <p>“We are very poor in making presentations. Not as professional and well-spoken as our American counterparts.” – Marketing Manager, French Security</p> <p>“It is more open now than before, as the sitting arrangement is an open layout. The engineers sit together, sales people together. They are able to communicate more with each other.” - Finance Manager, French Security</p> <p>“People are not listening to each other and their problems. This is very evident between the two firms. Listening is a key missing point in this post-acquisition process. If we took time to listen I think the integration process would have been much easier and faster.” – Purchasing Manager, French Security</p>
<p><b>Interpersonal relations</b> (Refer to Appendix 8 for mean score calculation  0 represent excellent interpersonal relations; 10 represent poor interpersonal relations)</p>	<p><i>Overall mean:</i> 5.07</p>	<p><i>Overall mean:</i> 3.27</p>	<p>“I think we are more control-mode than customer-mode. It is normal to have control in a big organisation, but I think only to a certain limit. I do not know whether it is a trust issue, that they do not trust us to run the business successfully if we do not report everything back to them...they should trust us more.” - Purchasing Manager, French Security</p> <p>“As the customers demand more and more out of us today, we are unable to respond to their need as quickly as we would like to or as we were able to, prior to the post-acquisition changes.” – Purchasing Manager, French Security</p>
<p><b>Motivation, staffing, training</b></p>	<p><i>Overall mean:</i> 4.62</p>	<p><i>Overall mean:</i> 6.98</p>	<p>“It was a family atmosphere. There were no rules for managing, hiring or rewarding employees. They (old management) hired</p>



<p>(Refer to Appendix 9 for mean score calculation)</p> <p>10 represents high levels of de-motivation levels, poor staffing and little training)</p>	<p>Formal procedures for hiring, training and motivating employees</p>	<p>Highest score indicating very high levels of de-motivation or demoralisation in this firm</p> <p>No formal procedures for hiring, training and motivating employees</p>	<p>structured now.” – Finance Manager, French Security</p> <p>“It is a law in France to have profit-sharing among employees. But it is more structured now and more performance oriented than before the M&amp;A.”</p>	<p>their own family members whenever needed. Rewarding employees was based subjectively on the management’s view. Therefore, there was this inconvenience of trying to implement strict procedures or structure that staffing, motivation and training after the M&amp;A.” – Managing Director, French Security</p> <p>“We have training but it is not enough to learn the new procedures.” – R&amp;D Engineer, French Security</p> <p>“They send us for training once a year. But it is not enough” - Project Leader, French Security</p> <p>“There is no motivation now. Before yes, I knew how the part I designed was used in the final product. Now, we do not see the big contribution of our work at the end. Not motivated at all.” – Project Leader, French Security</p>
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Source: Author, based on interviews conducted at French Security and First Automotive in 2002



### 8.2.2 NC Dimensions

This section discusses the similarities and differences between the American and French culture. Table 8.3 displays the dimensions discussed in Chapter 3 and analyses the differences between the two national cultures according to the evidence from the survey (means) and interviewee data.

According to the mean scores in Table 8.3, both countries scored quite similarly in the dimension of tolerance to uncertainty and other cultures. However, this worked against the post-acquisition efforts of the headquarters as both countries are 'set' in their ways. Examples include pride in their own culture and a refusal to speak another language. These made it difficult for the headquarters and the acquired management to work successfully together. There was very little understanding of the differences of cultures and willingness to adapt to the other in this case study.

There were large differences in culture between these two countries, as seen in the mean scores in Table 8.3. The scores that differed substantially between the two countries in the dimensions of language; power orientation, and time orientation.

Language was a major obstacle in this M&A because the French, as compared to the Germans or Swedish, are the least fluent in the English language. Apart from the managing director of the subsidiary, no other manager in the firm understood English. As a result, many misunderstandings occurred between the two firms. The other difference worth noting between the two countries was the time orientation dimension. The attitudes towards time are the complete opposite from each other. While the French view it as non-linear and have the attitude of "wait till tomorrow", the Americans view time as linear and have the attitude of 'what can be done today must be done today'. This difference in attitude towards time had caused many problems in the implementation of the headquarters' procedures till today.

Refer to Table 8.3 for details of NC dimensions for US and France.



Table 8.3: NC influences on the post-acquisition process

National culture dimensions	US	France	Evidence from interviews, questionnaire responses and observations	Influences on post-acquisition process
<b>Individualism vs. collectivism</b>  (Refer to Appendix 10 for mean score calculation  0 represents collectivism; 10 represents individualism)	<i>Overall mean: 6.76</i>	<i>Overall mean: 3.66</i>  Less individualistic than US	“We try to make decisions as a team. But if that is not possible, I will make the decision and implement it.” – Engineering Manager, French Security	Very few influences for this dimension.  “People try to work as teams here but there is less team-working here in France as compared to America. But people here do respect what the next person does” – HR Manager, French Security



<p><b>Language</b></p> <p>(Refer to Appendix 11 for mean score calculation)</p> <p>0 represents a neutral society 10 for an affective society)</p>	<p><i>Overall mean:</i> 2.75</p>	<p><i>Overall mean:</i> 5.50</p> <p>Affective communication – very emotional such as a lot of hand gestures, varying tones of voice according to feelings</p> <p>Not very fluent in English</p> <p>Not willing to speak English, or try to avoid if possible</p>	<p>“French are emotional, loud and expressive.” - European HR Director, First Automotive</p> <p>“It is always the story when you ask the question and you are waiting for an answer in a certain way. However, the answer is not the way that was expected. Confusion occurs as to what is being explained.” - Purchasing Manager, French Security</p> <p>“We like to express ourselves, all our feelings as we feel them. We are more demonstrative in that manner compared to the Americans.” – Project Leader, French Security</p>	<p><u>Largest influences on the process</u></p> <ul style="list-style-type: none"> <li>▪ <b>Transatlantic conversations</b> “It is difficult to communicate on the phone with First Automotive because English is not our first language. We do not speak good English and part of the message is lost because we are not fluent in it. This message is received over the telephone; the content is further distorted and most probably misinterpreted. It is very difficult and often causes delay in the integration process” - Engineer, French Security</li> <li>▪ <b>High context</b> “Americans do not explode, do not shout, slam the door, or walk out of a meeting like the French do. They did not accept this behaviour from the (old) French management; hence they replaced the original acquired management.” -Finance Manager, French Security</li> <li>▪ <b>No translation</b> “It is pretty well-known that the French are not fluent in other languages apart from French. Hence it was difficult initially to communicate with our American counterparts.” - R&amp;D Manager, French Security</li> </ul> <p>No translation of documents (for new procedures and policies) provided to the subsidiary.</p>
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<b>Time orientation</b> (Refer to Appendix 12 for mean score calculation 0 represent linear, short-term view; 10 for long-term view)	<b>Overall mean:</b> 3.73	<b>Overall mean: 6.62</b> Time is not viewed as linear Long-term orientation	<p>“A French guy comes in 15 minutes late; he thinks he is on time. Americans or Germans do not understand why he is late, are waiting, and fed up. But the French guy does not understand why they are fed up when he arrives.” - European HR Director, First Automotive</p> <p>“The French seem less organised, less of urgency in the day-to-day basis, less responsive in everything they do.” – European Finance Director, First Automotive</p> <p>“We tend to think we have more time on our hands. Things can be done tomorrow instead of today. There is no urgency to do it today.” - Senior Quality Management Engineer, French Security</p> <p>“We rarely put in overtime work. We just work the 8 hours required each day.” – HR Manager, French Security</p>	<p><u>Slowed down the process</u>          “They go out for lunch for two or three hours, it is pretty normal. French Security is closed during lunch, everybody goes, just gone!!” - European HR Director, First Automotive</p> <p>“I think there might have been problems in relation to time. For example, decisions are made slower here. Say there is a problem, an American or German might try to solve in within a day and most probably do so. But in France, you can call us two days later and the problem would not have been solved yet.” - Senior Quality Management Engineer, First Automotive</p> <p>“Compared to the other three acquisitions in Germany and Sweden, I find it more difficult to get information out of French Security when I need it.” – European Finance Director, First Automotive</p> <p>“I think it is the French culture, they hardly respond to us and our requests. They are very slow and it is impossible to get work done. It is very frustrating working with them.” – Competency Leader, German Security</p>
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<b>Tolerance to uncertainty and other cultures</b> (Refer to Appendix 13 for mean score calculation 0 for low tolerance; 10 represents high tolerance)	<i>Overall mean:</i> 3.48 Very proud of their culture	<i>Overall mean:</i> 3.32 Very proud of their own language and culture	“French are arrogant, we are French we don’t speak English, you have to speak French.” - Finance Manager, French Security	“There were people disliking a decision that was made by First Automotive two years ago. This decision was to move from the original French Security site in East France to Paris. People do not like that, to change or to move to some place new.” – Marketing Manager, French Security
<b>Power orientation</b> (Refer to Appendix 14 for mean score calculation 0 for low power orientation; 10 represents high power orientation)	<i>Overall mean:</i> 3.26	<i>Overall mean:</i> 7.19 High respect for authority	“We do what we are told to do.” - Project leader, French Security  “It is the French way to address our bosses with the title followed by their surname, for example, Mr. so-and-so. However, the managers address each other by their first names or the managers address our managing director by his first name. However, this is not something we can do. We are below that level.” – Project Leader, French Security	Assisted in some way the implementation of procedures as French do not question authority  “We watched a video on First Automotive telling us about the company’s policies. One of them is to call HQ directly, a telephone number was shown, and report a fellow colleague if we thought he was not doing his work accordingly. <b>We found this shocking as in France we go through ranks to report a problem.</b> This policy was not possible for us to do; it is not the French way.” - R&D Engineer, French Security
<b>Masculine vs. femininity</b> (Refer to Appendix 15 for mean score calculation 0 represents a feminine society; 10 represents a masculine society)	<i>Overall mean:</i> 6.48	<i>Overall mean:</i> 6.25	Based on the questionnaire finding, there is a general high desire among French to work near the area they live.	There was great unwillingness from many employees to sell their homes or move away from their families when the office was relocated to Paris. Hence many employees voluntary resigned.

Source: Author, based on interviews conducted at French Security and First Automotive in 2002



### **8.3 POST-ACQUISITION MANAGEMENT OF FRENCH SECURITY**

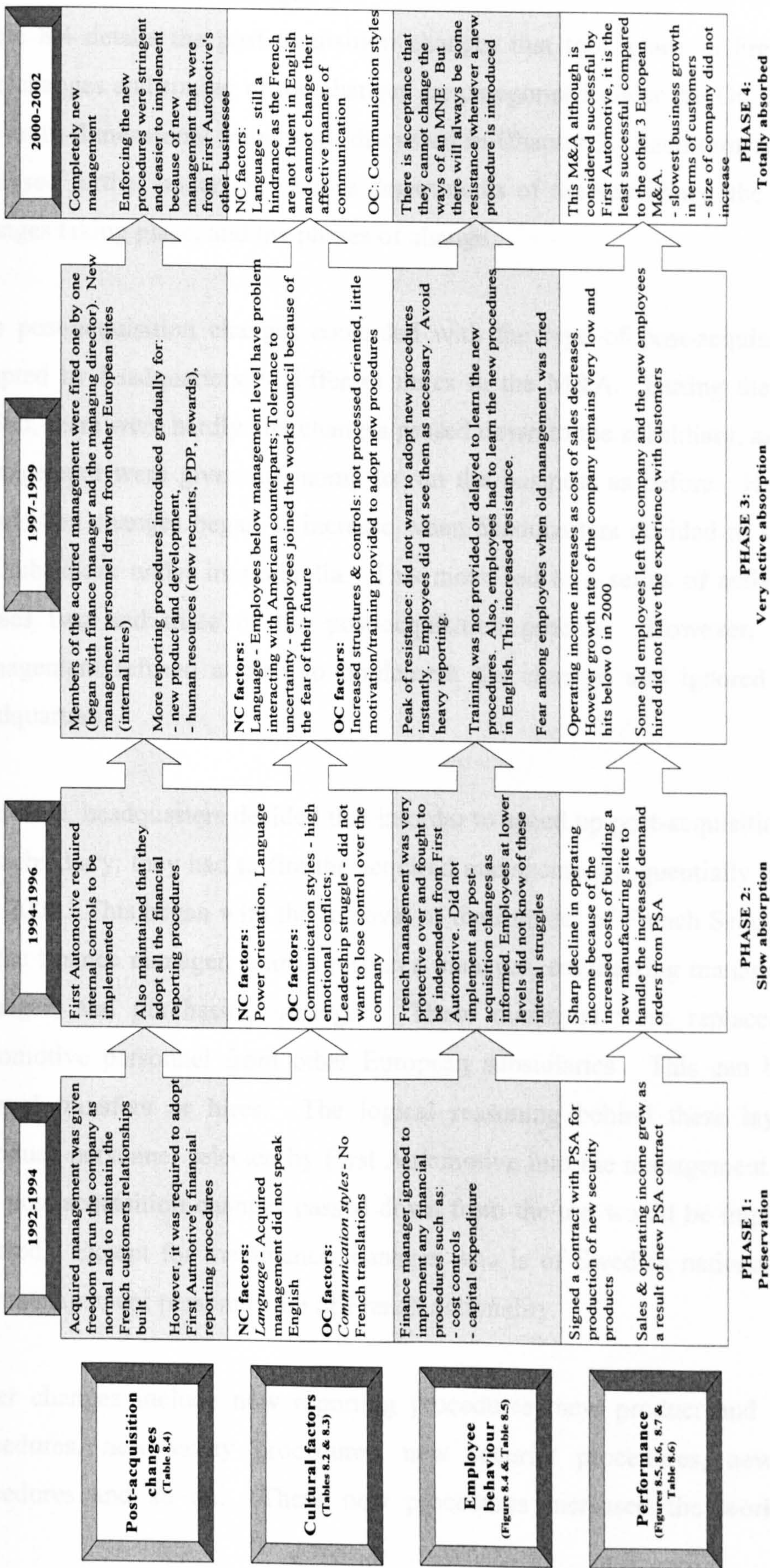
This next section discusses in detail the post-acquisition management process that took place in French Security between 1992 and 2002 highlighting the post-acquisition changes and employee behaviour at the acquired subsidiary.

This M&A was classified as a domain strengthening strategy because First Automotive acquired into a similar business activity – vehicle security market. According to Haspeslagh and Jemison (1991), this type of strategy requires the adoption of an absorption strategy. Although this strategy was adopted eventually, in the first three years after the M&A, the headquarters initially adopted a strategy that is termed as a preservation strategy.

A summary of the post-acquisition management of this case is seen in Figure 8.3. This figure discusses the M&A under four sub-sections: 1) the timing and types of post-acquisition changes, 2) cultural influences, 3) employee behaviour in French Security, and finally 4) the performance variances of the subsidiary since the M&A. Then, each sub-section is analysed according to the four phases of post-acquisition management that took place between 1992 and 2002: preservation, slow absorption, very active absorption and total absorption.



Figure 8.3: Post-acquisition management process of French Security



Source: Author



### ***8.3.1 Post-acquisition changes***

Table 8.4 details the post-acquisition changes that took place in French Security. The changes and timing of the changes are categorised under the OC dimensions of the multi-dimensional framework discussed in Chapter 3. Each dimension has been analysed further under the various departments of the subsidiary, the nature of the changes taking place, and the phases of change.

The post-acquisition changes coincided with the type of post-acquisition strategy adopted by headquarters at different times in the M&A. During the preservation period, there were hardly any changes passed down to the subsidiary, as the acquired management were given autonomy to run the business as before. However, post-acquisition changes began to increase when headquarters decided to slowly absorb the subsidiary under its umbrella. This move led to a series of active changes in phases two and three of the post-acquisition process. However, the acquired management refused at first to implement the changes and ignored orders from headquarters.

Therefore, headquarters decided that in order to speed up post-acquisition changes in the subsidiary: they had to fire the acquired management sequentially between 1997 and 2000. This began with the removal of the founder of French Security, followed by the finance manager, human resource manager, engineering manager, marketing manager, and purchasing manager. These managers were replaced with First Automotive personnel from other European subsidiaries. This can be termed as internal transfers or hires. The logical reasoning behind these layoffs was to introduce personnel selected by First Automotive into the management hierarchy so that post-acquisition changes passed down from the top would be implemented and adhered. Except for the finance manager who is of Swedish nationality, all other new management personnel are of French nationality.

Other changes include new reporting procedures, new product and development procedures, new safety procedures, new security procedures, new purchasing procedures and so on. These new procedures increased the workload of the



employees, as they had to learn all these new procedures, understand them and adopt them as soon as possible.

Post-acquisition changes continued into phase four of the process. Central approval is required for all major decisions on budgets, capital expenditure, new products, recruitment and any changes in strategic direction, although the day-to-day operations are decentralized. The HRM strategy includes a carefully planned and regularly reviewed process called the personal development process. The French Security brand ceased to exist in early 2002. It now adopts First Automotive's branding in all its business activities and employees now operate and conduct business as First Automotive's employees.

As compared to the German M&As in this research study, the adoption of the post-acquisition changes in French Security is still a painfully slow process. There was a consensus among interviewees that there is still a long way to go in successfully adopting all the common systems into the French subsidiary.

Refer to Table 8.4 for more details on the post-acquisition changes that took place in each phase.



Table 8.4: Post-acquisitions changes in French Security

OC dimensions	Departments involved	Areas of changes	PHASE 1: <i>Preservation</i> 0-2 years	PHASE 2: <i>Slow absorption</i> 3-5years	PHASE 3: Active absorption 6-8 years	PHASE 4: <i>Full absorption</i> 6-8 years
Goal & value alignment	Overall	More financial less strategic primary orientation			✓	✓
		Retention of decisions about company scope/direction			✓	✓
		Retention of decision about major contracts			✓	✓
		More short-term oriented			✓	✓
Structures & controls	Overall	More levels of hierarchy			✓	✓
		More formalized planning			✓	✓
		More centralised decision-making			✓	✓
		More use of automation/IT			✓	✓
	Finance	More use of parent financial control systems	Not adhered to		✓	✓
		Capital expenditures requires final approval by parent company	Not adhered to		✓	✓
		More cost control systems	Not adhered to		✓	✓
	R&D	Retention of decisions of new products			✓	✓
		New product development procedures			✓	✓
		More implementation of TQM			✓	✓
Communication styles	Purchasing	Less development on new products			✓	✓
	Overall	New global purchasing procedures			✓	✓
		More top-down style			✓	✓
		More formal meetings			✓	✓
		More open form of communication			✓	✓
Interpersonal	Sales &	More explicit in terms of written documents such as procedures			✓	✓
		Less customer involvement				✓



relations	Marketing	Less offering of unique products/services		Rather poor, plenty of disagreements on running FS	Stronger and more consistent due to overhaul in management	✓
Motivation, staffing, training		Communication between parent & acquired subsidiary				
		Implementation of group working/work teams		Not formalised	✓	✓
	Human Resource	Less ad hoc career development			✓	✓
		Increased formalised training		English training: not many took it though		✓
		More performance related rewards			✓	✓
		More centralised strategic decision-making		No change	✓	✓
	Overall	More than one manager to report to (matrix)		No change	✓	✓
		Managing director appointed by parent company		No change	✓	Same
		Finance manager appointed by parent company appointed by parent company		No change	✓	Same
	HRM	HRM manager appointed by parent company		No change	✓	Same
R&D	Engineering manager appointed by parent company		No change	✓	Same	
Marketing	Marketing manager appointed by parent company appointed by parent company		No change	✓	Same	
	Purchasing	Purchasing manager appointed by parent company		No change		✓

Source: Author



### ***8.3.2 Post-acquisition behaviour***

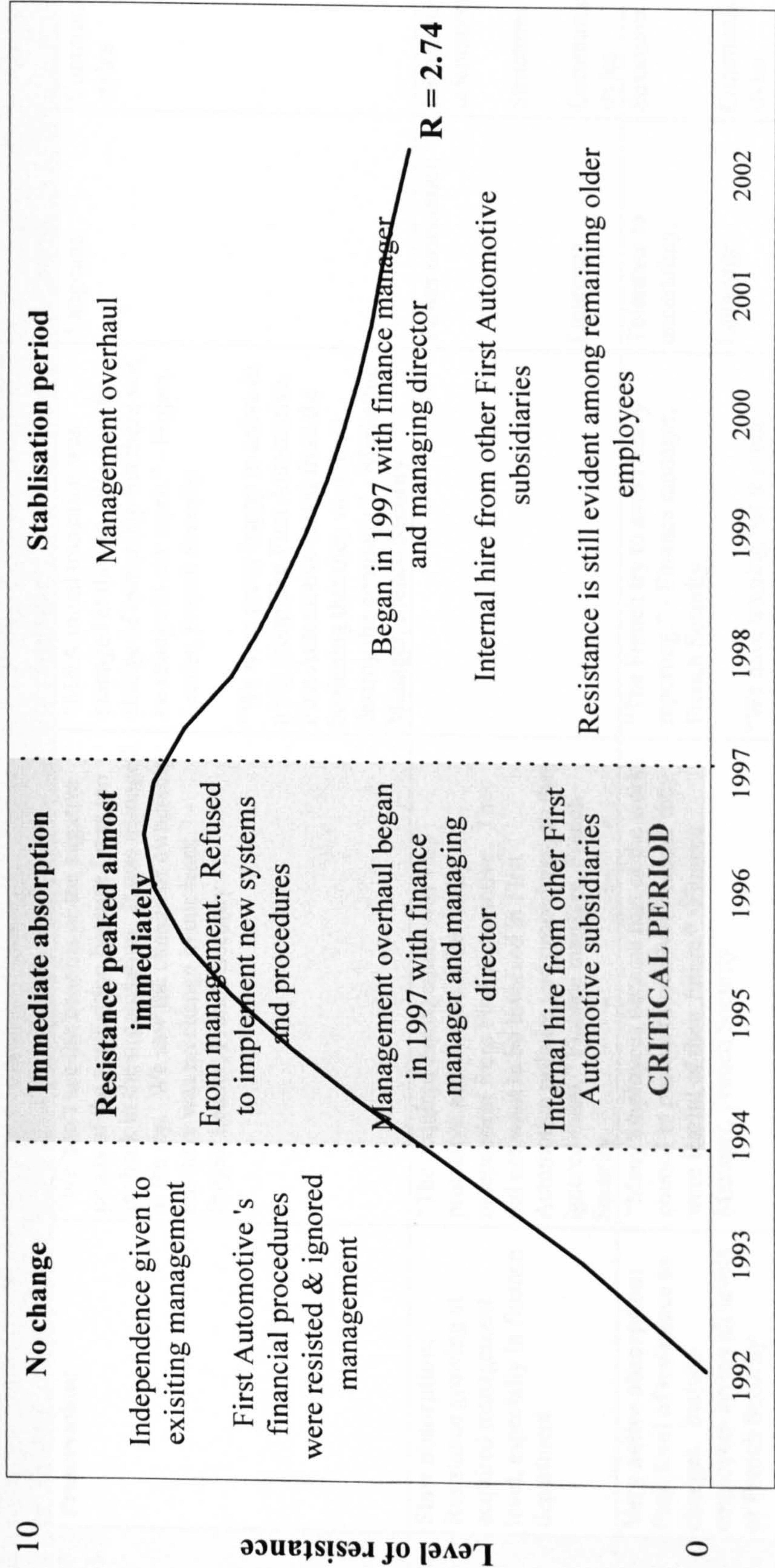
The employee behaviour coincided with the level of post-acquisition changes implemented in the subsidiary. This is seen in Figure 8.4. The levels of resistance have been classified according to the four post-acquisition phases for this M&A.

As a whole, the perceptions of the interviewees from headquarters agreed that there was a very high level of resistance in this subsidiary during earlier phases of the post-acquisition process. However, this resistance was very high only in the management level of the firm. This is reflected in the resistance formula created by the current author. The current level of resistance as of 2002 was  $R = 2.74$ , indicating that there is still some form of resistance to the acquirer. The shape of the curve in Figure 8.4 provides a perception of how high resistance might have been in the earlier post-acquisition phases.

This resistance from the French stem from the differences in cultures between the firms and the countries. Relevant interview quotes on how culture influenced employee behaviour are seen in Table 8.5. This table displays how culture played its role in the adoption of the employee behaviour in this M&A according to the four identified post-acquisition phases and how headquarters managed the differences resulting in either a positive or negative impact.



Figure 8.4: Differing levels of resistance in the post-acquisition process



Source: Author, based on NC and OC dimensions means scores, where  $R = 10$  represents highest level of resistance and  $R = 0$  represents lowest level of resistance). (Refer to Figure 5.11 resistance formula)



Table 8.5: Culture influences on resistance

Year	Post-acquisition phase & resistance	Evidence from interviews	First Automotive management of resistance	Cultural dimension involved	
				NC	OC
1992-1994	<b>Preservation:</b>	“We don’t see the benefits or the negative points of the acquisition because I was too far back in the organisation. It was managed at the top. We saw the change of ownership but there was no change in our work.” - Project Leader, French Security	“M&A initial transition was managed at the top. We saw the change of ownership but there was no change in our work.” - Project Leader, French Security  “We were pretty happy to arrive in a big group like First Automotive. First Automotive stated from the beginning that they would not destroy the company.” - Marketing Manager, French Security	Language	Communication styles
1994-1996	<b>Slow absorption:</b> Resistance growing at acquired management level, especially in finance department	“The acquired management was very protective and wanted to be totally independent from First Automotive. They did not want to be involved in First Automotive policies and procedures, so they ignored them.” Finance manager, French Security		Power orientation  Language	Leadership orientation Structures & controls, Communication styles
1997-1999	<b>Very active absorption:</b> Peak level of resistance to changes. Include employees across all levels of French Security	“Many employees became part of the works council to protect themselves because they were fearful of their future.” -Finance Manager, French Security	“The French try to avoid heavy reporting.” - Finance manager, French Security  “We have training but it is not enough to learn the new procedures.” R&D engineer, French Security	Tolerance to uncertainty,  Language,  Masculinity vs. femininity	Structures & controls, Communication styles  Training/motivation/s taffing
2000-2002	<b>Total absorption:</b> Acceptance of changes	“We do not have the money or finances to adopt the new processes as quickly as we	We do not receive enough support from First Automotive in this	Language	Communication styles



		<p>like to. We do not receive enough support from First Automotive in this aspect.” - Engineering Manager, French Security</p> <p>“The main obstacle in my mind is the complexity of the organisation of First Automotive. The organisation is matrix, it is not easy to integrate, probably the most complex. It is easy to get confused and lost especially for a new employee.”- Managing Director, French Security</p>	<p>aspect.” - Engineering Manager, French Security</p>		Structures & controls
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Source: Author, based on interviews conducted at French Security and First Automotive in 2002



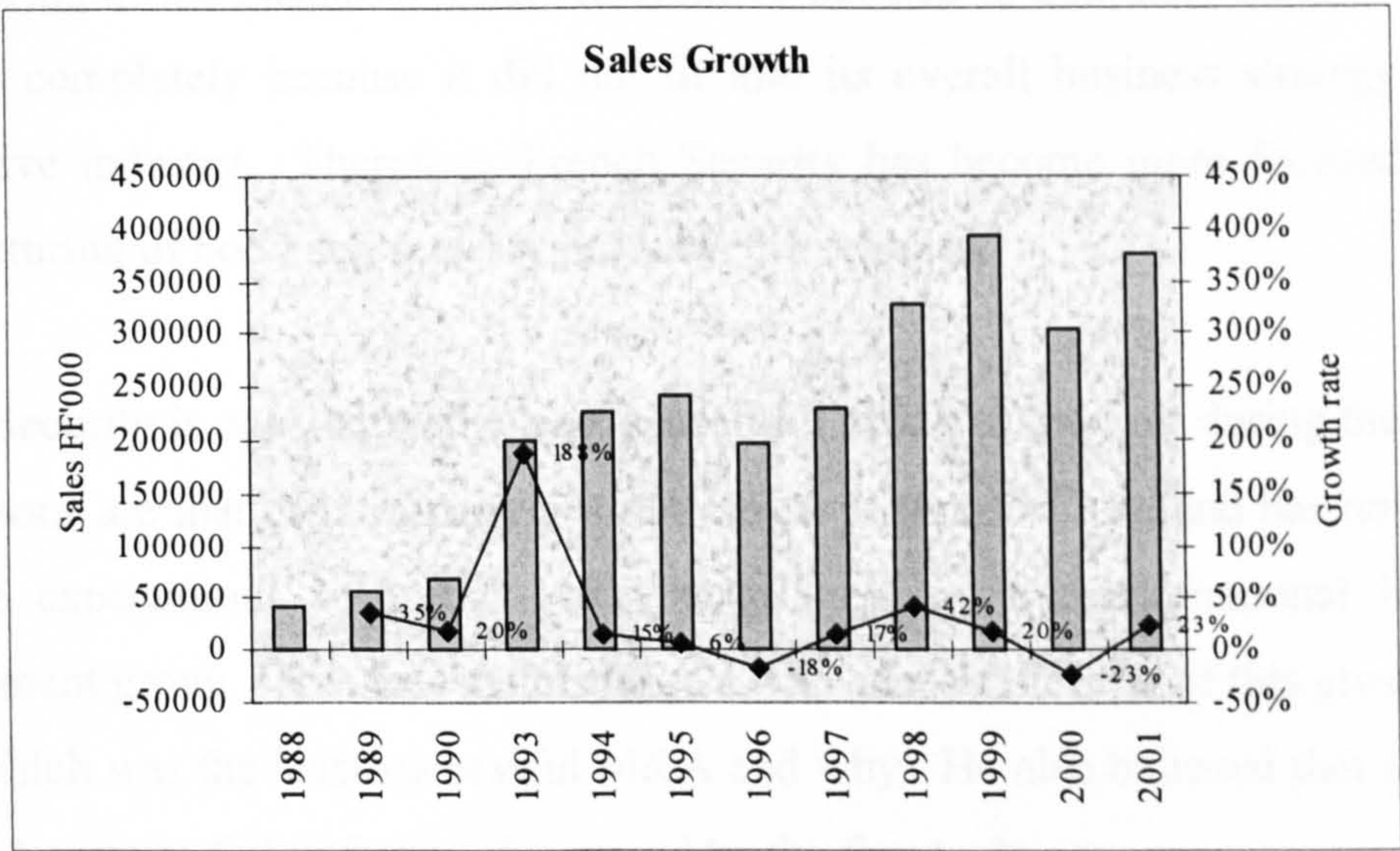
8.4 OVERALL PERFORMANCE OF M&A

The performance for French Security after the M&A varied accordingly to various factors such as economic, technological and to a certain degree the impact of the integration process. This section looks at the performance figures of sales growth, operating income, employee growth and the performance on the manufacturing metrics over the past ten years of post-acquisition management. The monitoring of the various performance figures has been categorised into the four phases that were discussed throughout this chapter.

8.4.1 Sales growth

The average annual growth rate of the company sales during the nine years of the post-acquisition was 30% (Figure 8.5). In phase 1, French Security displayed very strong sales growth and this was due to the new contract signed with a French OEM. The growth of sales coincided with the increased demand for vehicle security products during this period.

Figure 8.5: Sales growth for French Security



Source: Based on annual financial reports

Since phase two began (between 1994 and 1996), sales growth started to decrease. There were two possible reasons for this. Firstly, poor sales growth coincided with



the increasing conflict between First Automotive and French Security management in regard to implementing new processes and procedures. Secondly, French Security was primarily in the aftermarket business when First Automotive acquired it. The French OEM was its first major OEM contract. Therefore the decrease in sales is explained by a diminishing aftermarket business in general during the mid-1990s.

In the beginning of phase 3 (between 1997-1999), there was an increase of sales growth rate by 16% to 230 million francs. The reason for this is that for the first time in French Security's history, its OEM sales exceeded its aftermarket sales. However, towards the end of this phase sales growth decreased again, and this is due to the major structural and control changes in terms of a new management, increased new procedures to adopt and lower-level employees beginning to deal with their American counterparts for the first time. Apart from that, French Security's contract of supplying the French OEM with body computers reached the end of its product cycle, hence a decrease in sales.

In phase 4 (between 2000-2002), sales began to increase and this is mainly due to the restructuring of the business. First Automotive decided to eliminate the aftermarket business completely because it did not fit into its overall business strategy in the automotive industry. Therefore, French Security has become more focused in the manufacturing of body and security products for vehicles.

French Security is considered the least successful M&A of the four during the 1990s. The reasons are that the company has not grown in terms of size and has not totally met the expectations of initial M&A targets set by the international business development group. This was the response of the general director of this group when asked which was the least successful M&A and why. He also believed that if any of the M&A were to fail in future; this would be the first to do so:

*"French Security...because we were just never successful in gaining any volume of OEM business. I do not know whether it is the state of the automotive industry in France, that they are very nationalistic in their supply-base, they have been much slower to utilise the multi-suppliers even in some of the German companies. Therefore, I felt that they probably had*



difficulty in transiting from an aftermarket to OEM company. Where the other companies started that way, they had a much more difficult task. So my guess is if any of them was to collapse or fall off the table, French Security would be first”.

General Director of International Business Unit (retired), US headquarters

The finance director too, as seen in the following quote, shared this sentiment of the poorer post-acquisition success in French Security:

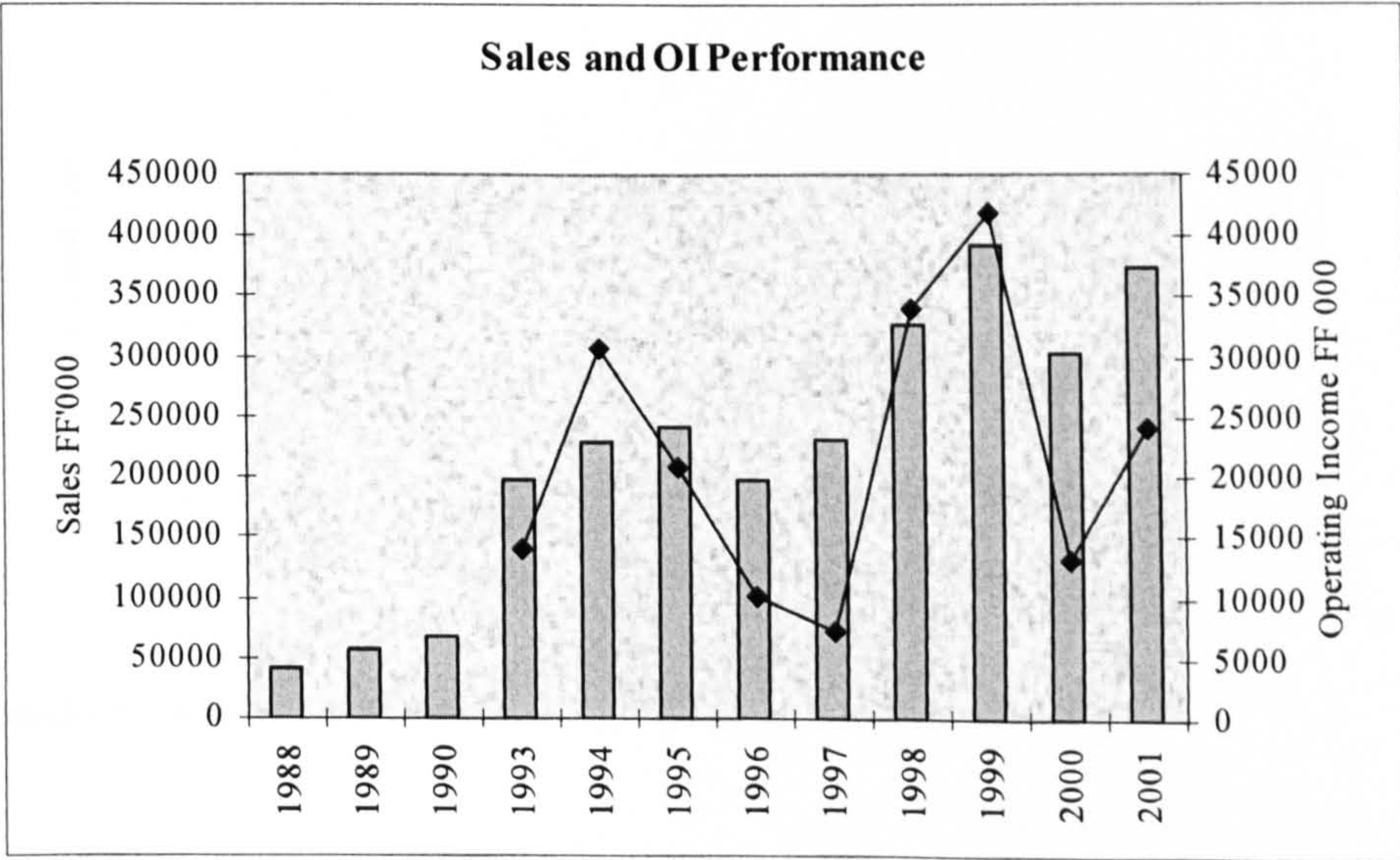
“The post-acquisition success of French Security is questionable. They just did not grow. We built a new plant and we expected them to really sell to Renault as well as PSA. And they never really got Renault as a customer, still do not. Here is a French company located in France, with two automakers, and they get one automaker and can’t get the other. Just didn’t grow as expected.”

Assistant Finance Director, US headquarters

8.4.2 Operating income

The operating income of French Security since the M&A has also been fluctuating like the sales growth. However, the operating income of French Security has grown by over 71% from 14 million French francs in 1993 when it was first acquired to 24 million French francs in 2001, indicating that the post-acquisition management overall has been successful.

Figure 8.6: Operating income for French Security



Source: Based on annual financial reports



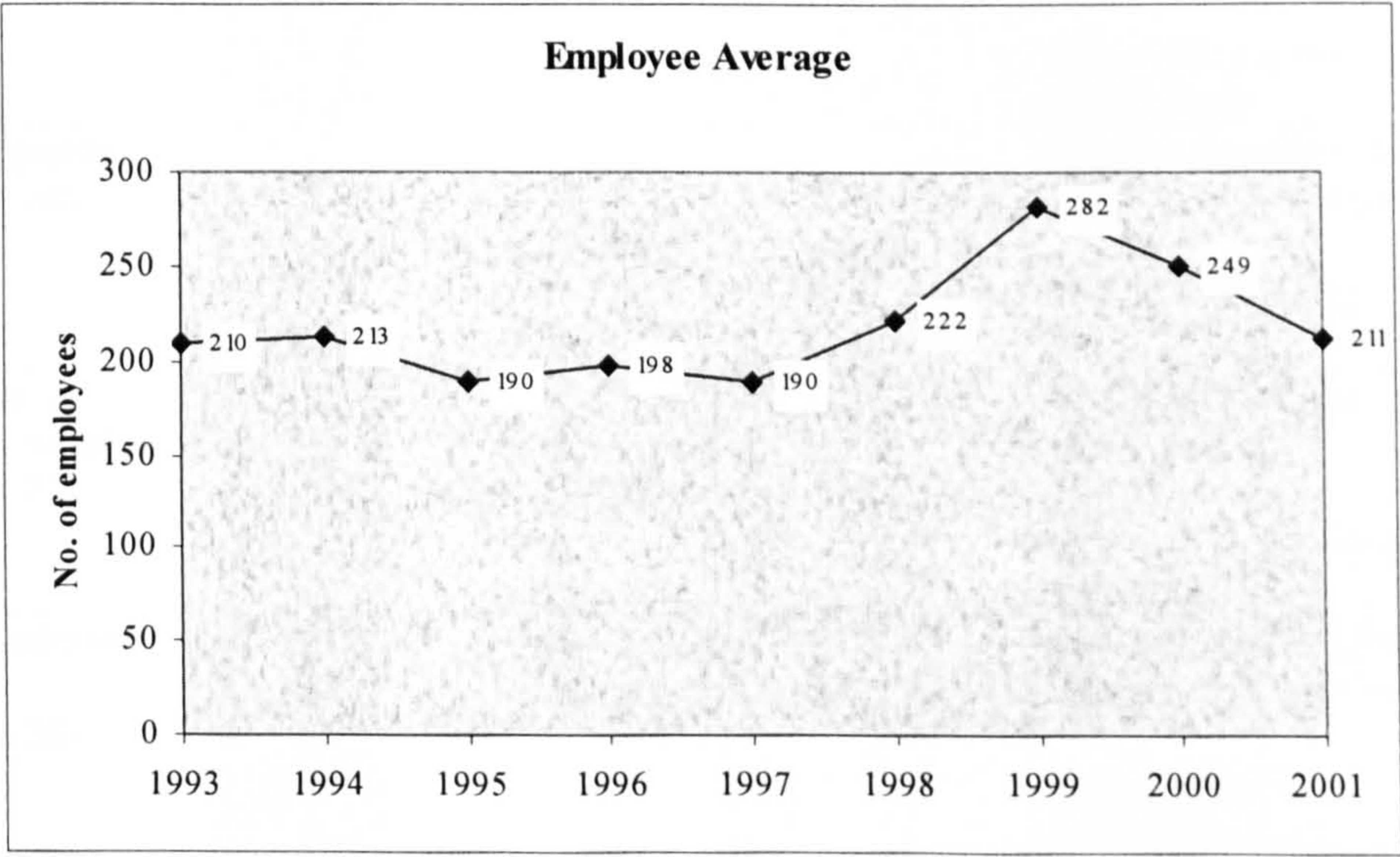
However, it must be noted that between this M&A has not always been successful. As seen in the Figure 8.6, operating income decreased during the transition from phase 2 to 3 of the post-acquisition process. This is attributed to the building of a new manufacturing site that increased overall expenditure and the conflicts that took place between the acquired management and First Automotive top management.

However in phase 3, profits increased as sales growth increased but by phase 4, operating income fell again due to the increased material costs when First Automotive restructured its aftermarket business in 2000.

**8.4.3 Employee growth**

Even though sales have increased over tenfold since 1988, the size of the company has not grown much in terms of average number of employees because the company has restructured its business to transfer the aftermarket business to another division of First Automotive (Figure 8.7). The company is now focusing on the OEM business only.

Figure 8.7: Employee growth for French Security



Source: Based on annual financial reports

As seen between 1997 and 1999, the number of employees hired increased because many older and original employees decided to resign due to the structural changes



that occurred during this third phase of the post-acquisition process. Additional employees were hired to reflect the increased need for OEM expertise instead of aftermarket personnel in the business.

8.4.4 Manufacturing metrics

As seen in the Table 8.6table, the manufacturing performance of French Security has improved since 1999. However, the distance between the current metric scores and the target levels are still quite high, indicating that this subsidiary is yet to reach optimum efficient and effective levels. This is also an indication that the post-acquisition changes have not been fully adopted successfully by the subsidiary.

Table 8.6: Manufacturing performance for French Security

Selected manufacturing metrics	Target	1999	2002	First Automotive 2002	Analysis for French Security
Ship window compliance (Appendix 16)	100%	95.6*	98.4	97.0	Improved delivery and distribution  Better score than headquarters
Operational availability (Appendix 17)	> 98%	66.3*	78.2	72.2	Improved usage of operational resources but need further improvement  More efficient than headquarters
First time quality (Appendix 18)	< 20,000	243,716	58,552	62,371	Improved quality levels but need further improvement  Higher quality than headquarters
Manufacturing expense % of sales (Appendix 19)	< 20.5%	14.50*	14.30	51.6	Reduced expenses – not much though  More cost-efficient than headquarters
Returned parts per million (Appendix 20)	< 20	61	26	7	Improved quality parts but need further improvement  Not as effective as headquarters
Lost workday case (Appendix 21)	< 0.15	2.09	1.34	0.10	<b>Yet to reach target levels</b>
Notes: * 2001 figure					

Source: Based on First Automotive annual analysis



But it is interesting to note that this subsidiary performed better in four of the metrics -- ship window compliance; operational availability; first-time quality; and manufacturing expense percentage of sales -- than the US headquarters manufacturing facility.

#### ***8.4.5 Synergies***

It took a long time before any synergy was captured between First Automotive and French Security because of the resistance faced in the first five years of the post-acquisition process and the resistance to post-acquisition changes from employees during the next five years. This section looks at the three types of synergies: sharing operational resources, and transferring functional and management skills between First Automotive and French Security.

**Sharing operational resources.** In terms of sharing distribution channels, this was instantly achieved for First Automotive as it immediately had access to the French distribution network when it acquired French Security. But, in terms of sharing global purchasing resources, this was not captured until recently when a common system was implemented in French Security in 2001. According to the interview respondents from both companies, these synergies are yet to be fully captured and will take another couple of years or more to be fully operational.

**Transferring functional skills.** There were some synergies achieved in respect of functional skills during the first three phases of the post-acquisition process because First Automotive had to break down the barrier of resistance from French Security and slowly rebuild the link between the two companies in phase 3. However, in phase 4, many interview respondents have mentioned that there is more sharing of functional skills between First Automotive subsidiaries such as between French Security and Germany Security. There has also been an increased in sharing manufacturing facilities. For example, because French Security's manufacturing facility has not been fully utilised, it manufactures German Security's products in France. Another example is that because both companies design and manufacture



similar vehicle security products, R&D information is shared between the engineers between the two firms.

**Transfer of management skills.** This was not transferred at all during the first two phases of the post-acquisition process when the acquired management was in power as they refused to adopt First Automotive’s procedures or refused to cooperate with the other subsidiaries. This has since changed with the new management and the managing director of French Security also holds an important position within the Body and Security division and has direct involvement with First Automotive strategy planning for the division.

**8.5 CONCLUSIONS**

This chapter looked into detail at the case study of French Security, the second European M&A conducted by First Automotive. It discussed a brief history of the company prior to the M&A and the motives of the M&A. Then the chapter discussed the four post-acquisition phases of French Security. A major weakness in the management of French Security is the non-existent integration team to assist the management and employees at French Security in the post-acquisition changes. The management style adopted by First Automotive in implementing changes was a top-down approach. The most obvious post-acquisition changes throughout the whole post-acquisition process were a new management style, new product development procedures, increased reporting and controls. The changes took place in four phases and the impact of culture and level of resistance varied accordingly.

**8.5.1 Research questions answered**

This concluding section answers the research questions discussed in Chapter 4.

**1-i) Which cultural dimensions influence the post-acquisition process?**

Cultural dimensions	Phase 1	Phase 2	Phase 3	Phase 4
<b>National dimensions</b>				
Individualism vs. collectivism (-ve)		√		
Language (-ve)	√	√	√	
Time orientation (-ve)		√		
Tolerance to uncertainty and other cultures (-ve)	√	√	√	



Power orientation (+ve)		√		
Masculinity vs. femininity (-ve)		√		
<b>Organisational dimensions</b>				
Goal and value alignment (-ve)		√		
Structures and controls (-ve)		√		
Leadership (+ve)		√		
Communication style (-ve)	√	√	√	
Interpersonal relations (-ve)	√	√	√	
Motivation, staffing and training (-ve)		√		

Notes: -ve represents negative influences; and +ve represents positive influences

**2-ii) Do NC and OC interact during the post-acquisition process?**

This case showed that there were interactions between NC and OC dimensions and these influenced the post-acquisition process and the behaviour of the employees in the firm (see table below).

Interactions between		Phase 1	Phase 2	Phase 3	Phase 4
NC	OC				
Individualism vs. collectivism	Leadership styles; Motivation, staffing and training		√		
Language	Communication style	√	√	√	
Time orientation	Goal and value alignment		√		
Tolerance to uncertainty and other cultures	Interpersonal relations	√	√	√	
Power orientation	Leadership style		√		
Femininity	Motivation, staffing and training		√		

**2a-i) How do differing NC and OC interaction influence the post-acquisition behaviour?**

The main difference between the companies and countries were: language differences that affected communication styles; and tolerance to uncertainty that affected interpersonal relations between management and employees. These resulted in the miscommunication and poor relationships between the managements in phase two of the post-acquisition process, which is reflected in the peak of the resistance levels.

According to the culture literature (Hofstede, 1980, Trompenaars, 1993, and GLOBE 2002), France is a country that displays characteristics of high respect for power or authority. Therefore, one would assume that it would be easier to ‘hand down’ orders to the acquired subsidiary as the employees are used to not questioning



authority. However, the previous management in French Security behaved in the completely opposite way; they did not adhere to First Automotive's initial attempts to implement post-acquisition changes. The result was a strong power struggle between the managements. This was resolved with the dismissal of the entire acquired management. After this move, it was easier to pass down orders between the US headquarters and the acquired subsidiary.

**2a-ii) How does the acquirer manage these interactions and resulting behaviour?**

Since this was its second M&A in history, there was still very little experience in managing the post-acquisition process. According to the European HR director, the 'cowboy' approach was also adopted in this M&A. As a result, the previous acquired management did not accept the post-acquisition changes. However, unlike the other M&As, the entire management team was dismissed for various reasons mentioned earlier. The new management was hired either from competitors or transferred from the First Automotive worldwide umbrella. Except for the finance manager, all the other management personnel are of French nationality. This was intentional, to retain the localness of the firm. Since new management were introduced, there has been more progress in the adoption of post-acquisition changes. However, this is still the slowest subsidiary to adopt new changes from its parent.

**2c-i) Are cultural differences related to the cross-border performance?**

According to the interviewees, the perception of the success of this M&A was that it had been the least successful M&A. Although the firm is still making profits, there has been no growth in size. There were many factors contributing to this. Firstly, the firm has not secured the other French OEMs as customers as it had hoped to. Secondly, as compared to the Swedish or German cultures, the differences between the US and French cultures are much wider. It suggests that when NC is too different between the firms, it becomes even more difficult to manage the acquired subsidiary even after a long time.



**2c-ii) In what ways are cultural differences related to cross-border performance?**

This case study suggests that the wider the cultural differences between the firms and the countries, the lower the M&A performance.

The next chapter will discuss the third M&A conducted by First Automotive. This was an acquisition into the automotive consultancy service industry.



CHAPTER 9: ACQUIRING INTO SWEDEN

9.0 INTRODUCTION

This chapter covers the third European acquisition conducted by First Automotive. It was an acquisition into the Swedish automotive consultancy sector. This was a unique M&A compared to the other three because First Automotive purchased a consultancy business without any manufacturing facilities. Hence, it has been classified as a *domain extension* acquisition (that is vertical in nature). Table 9.1 highlights the characteristics of the interviewees and a brief profile of their background for this case study.

Table 9.1: Interviewees’ profiles for Swedish Consultancy

Classification of interviewee	Company	Position held in company	No. of years in service
Strategists	First Automotive, US headquarters	Retired Director of International Business Unit	30
		Assistant Finance Director	25
	Swedish Consultancy	Co-founder & R&D Director	21
		Finance Manager	21
Implementers	First Automotive, European headquarters	European HR Director	5
		European Finance Director	2
	Swedish Consultancy	HR Manager	1½
Note: number of years in service as of 2002			
There are no receivers in this case study because the post-acquisition process was managed at the top management level and any changes were only experienced or received were confined to this Swedish Consultancy and First Automotive			

Source: Author

9.1 BACKGROUND OF M&A

Founded in 1982 by two visionary engineers, Swedish Consultancy has been a highly successful consultancy business serving the Swedish automotive market. The business resulted from the managing director/co-founder’s Ph.D. thesis that was on building a fully computerised ignition system for car vehicles. This was a visionary concept back in the 1980s and almost upon opening the business, the company obtained a contract with a Swedish OEM.



Today, Swedish Consultancy employs 162 people, is active in providing services for advanced engineering, and specialises in the development of advanced electronics concepts for automobiles, trucks, buses and their infrastructure. Its business activities include services that range from taking development responsibility for complete software systems, to developing individual software modules within an OEM system. They have also expanded heavily in the area of mobile multimedia in the last ten years. Since the company specialises in consultancy work, it does not have its own production facility, therefore the manufacturing of its product designs are subcontracted. Their customers include manufacturers of vehicles and combustion engines such as Saab and General Motors. It recently won a contract with Ferrari's Formula 1 racing team, an indication of the quality of ignition systems it provides to its customers.

#### *9.1.1 Motives for the M&A*

Unlike the other three acquisitions discussed in this research, this M&A is slightly different. The deal took place in three phases before First Automotive owned 100% of it. The three phases were:

- *Phase 1 (1985):* In 1985, the founders decided that in order to grow in size, they needed a parent company for greater access to the market. Hence, it sold its shares to its major customer, a Swedish car manufacturer, and was managed under this parent company for the following five years. According to the strategists interviewed, there was no difficulty encountered during this initial acquisition of shares as the new owner was Swedish and hence the way of doing business remained the same.
- *Phase 2 (1990):* In 1990, a joint venture was formed between the Swedish car manufacturer (60%) and an American car manufacturer (40%) and part of this partnership was to share the responsibility of managing Swedish Consultancy. Since, Swedish Consultancy served the automotive electronics market this responsibility of co-managing it was handed to the American car manufacturer's electronics division, First Automotive. Therefore, between 1990 and 1993, Swedish Consultancy was managed by two parent companies. This period



according to the strategists interviewed in Swedish Consultancy was difficult as there was little agreement between the two parent companies on Swedish Consultancy’s growth strategy.

- *Phase 3 (1993/4):* Hence, in 1993, the acquired management proposed to their parent companies that they become 100% owned by either of the two parent companies. However, before going with the proposition, the management in Swedish Consultancy analysed the pros and cons of being acquired by either company (Table 9.2). These turned out to be their driving motives for the M&A to take place. They preferred to be acquired by First Automotive over the Swedish OEM because of the link to a much wider potential customer network.

Table 9.2: Pros and cons of being acquired from Swedish Consultancy’s perspective

If acquired by	Advantages	Disadvantages
Swedish OEM	Same nationalities Excellent reputation for innovative technology in Europe	European network only
First Automotive	Worldwide network to automotive manufacturers Excellent reputation for quality worldwide More financial power	American vs. Swedish nationalities

Source: From interviews with strategists that took place in Swedish Consultancy

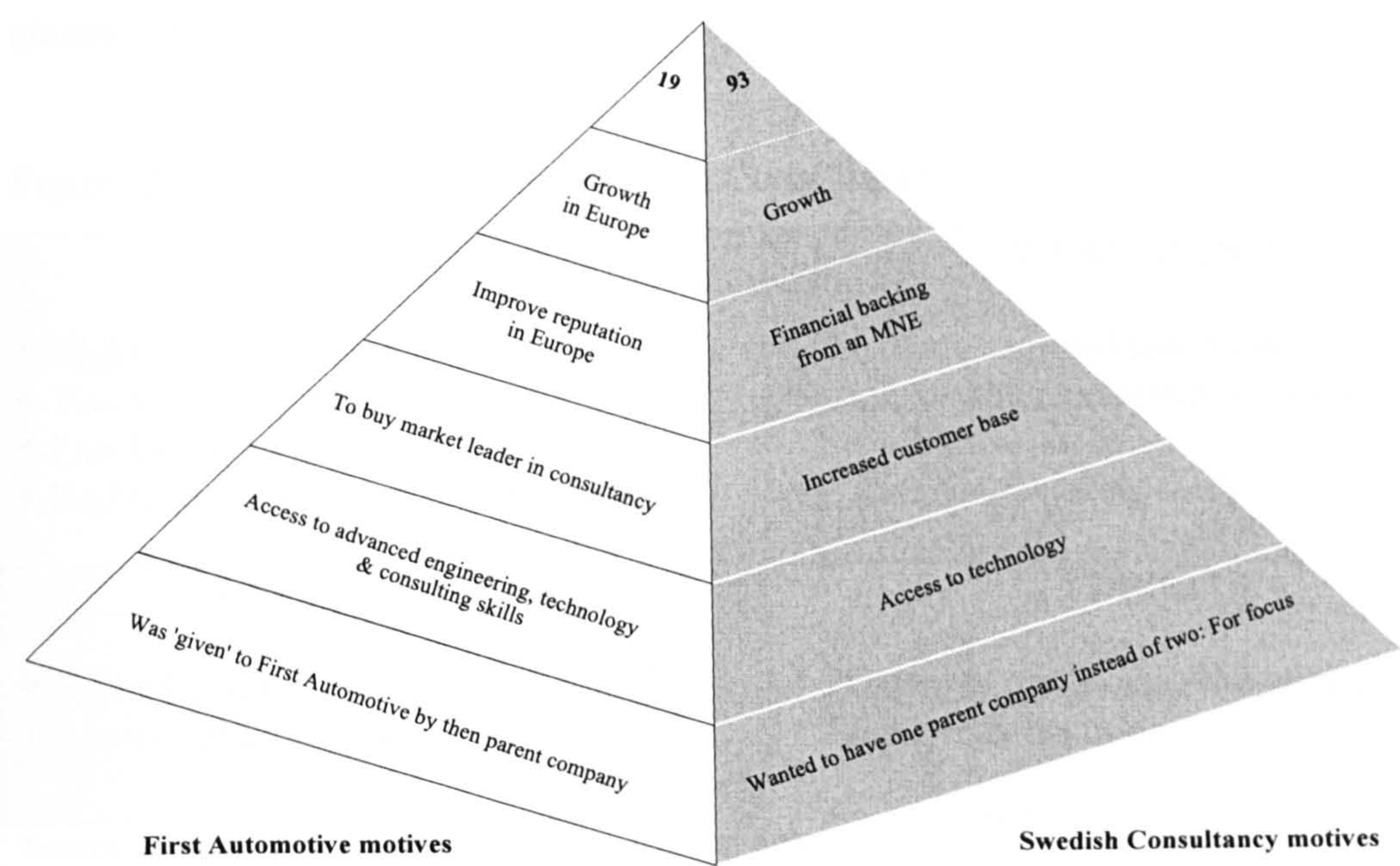
This proposition came at an opportune time because First Automotive’s parent company decided to buy-out the remaining shares of their joint venture partner, the Swedish OEM. This M&A resulted in a sub-division purchase of the remaining 60% shares owned by the Swedish OEM by First Automotive for USD 1 million.

For First Automotive, the strategic motives to acquire fully Swedish Consultancy were to (1) gain skills in advanced engineering and technology; and (2) to gain direct access to the local OEMs through the established relationships in Sweden. This acquisition move was also in-line with First Automotive’s global strategy to expand into Europe and to grow in stature in the expanding mobile multimedia market. Furthermore, Swedish Consultancy had an excellent reputation in this market and was the market leader in Sweden. Therefore, the acquisition was made with the intention to capture synergies in innovative technology in the mobile multimedia



market. The motives for the acquisition are summarised in Figure 9.1 depicting both firms' perspectives.

Figure 9.1: Motives for the acquisition of Swedish Consultancy



Source: Author, based on interview and archival data

The M&A took place at the end of 1993 and according to one of the co-founders in the company; it marked *“the beginning of a very successful period of growth in Swedish Consultancy.”*

According to Smith (1985), vertical acquisitions are popular in industries with high promise of growth, and in this case, First Automotive predicted in the early 1990s the potential growth in safety and emissions in engines and mobile multimedia, areas in which Swedish Consultancy was actively involved with at the design phase. Therefore, intended synergy of the acquisition from First Automotive’s perspective was the ability to work directly with OEMs at the design phase of products as seen in the following quote made by the ex-director of First Automotive:

*“...their two primary fields of expertise were safety and emissions in engine and so was a good place to work with the OEMs at the designing phase”*  
Director of International Business Unit (retired), First Automotive



To sum up this section, First Automotive acquired Swedish Consultancy because it had an excellent brand image in the European market for its innovative and high technology skills (Figure 9.2). Furthermore, it was an opportunity for First Automotive to gain a stronger hold in the European market to improve its own image among the European OEMs.

Figure 9.2: SWOT analysis for Swedish Consultancy

<b>STRENGTHS</b> <ul style="list-style-type: none"><li>▪ Highly entrepreneurial</li><li>▪ Technology and skills</li><li>▪ Excellent brand image</li><li>▪ Highly innovative and creative people</li></ul>	<b>WEAKNESSES</b> <ul style="list-style-type: none"><li>▪ Small with limited resources</li><li>▪ Lack of global presence, known only in Swedish market</li><li>▪ Lack manufacturing facility</li></ul>
<b>OPPORTUNITIES</b> <ul style="list-style-type: none"><li>▪ Expand customer base</li><li>▪ Expand technology base</li></ul>	<b>THREATS</b> <ul style="list-style-type: none"><li>▪ Possibility of unsuccessful integration</li><li>▪ Stronger competition</li></ul>

Source: Author, based on interviews and archival data

9.1.2 Challenges in this M&A

The main challenges that occurred in the post-acquisition process of this M&A can be summarised as follows:

- This was First Automotive’s third acquisition into Europe, but its first domain extension M&A. As in the first two M&As, the post-acquisition management objective to absorb the firm after the initial two years of preservation. There was no integration plan;
- The acquirer faced a huge barrier of management resistance when First Automotive decided to require changes that were not realistic for a consultancy firm. The acquired top management was almost ready to walk out until a governance was issued in 2000 providing full autonomy to the acquired management to run the business;
- There were more similarities and than differences between the American and the Swedish cultures and these contributed to a fairly smooth flowing management of the post-acquisition process; and



- Post-acquisition resistant behaviour was only experienced at the top management level and most employees in the subsidiary view First Automotive as a customer instead of its parent company.

This company has grown over three times in size since the acquisition in 1994. It displayed the lowest level of post-acquisition resistance and is the second most successful M&A in this study.

## **9.2 COMPARISON OF THE CULTURAL DIMENSIONS**

This next section first discusses the differences of organisational culture (OC) followed by the national culture (NC) between the two firms and their general influences on the post-acquisition process. Mean scores were allocated to each dimension based on survey findings and interview data (Appendices 4 to 15). Each dimension is also analysed on how it influenced the post-acquisition process with supporting interview quotes.

### ***9.2.1 OC Dimensions***

There were some similarities and some distinct differences between First Automotive and Swedish Consultancy in terms of organisational culture. The differences can be traced back to the basic difference that one is a large multinational firm and the other is a small, entrepreneurial local firm. Table 9.3 displays the dimensions discussed in Chapter 3 and analyses the differences between the two firms according to the evidence from the survey (means) and interviewee data.

The similarities were in the dimensions of: interpersonal relations and motivation, staffing and training. Both firms have a very customer-oriented approach and thrive to achieve employee satisfaction and happiness as their motto. However, there were some differences and these were in the dimensions of: leadership orientation; goal and value alignment; communication styles; and structures and controls.



Leadership orientation was the major difference in this M&A. The founder of Swedish Consultancy was a highly charismatic leader who had total respect from his employees. He was a visionary and the organisational culture of this subsidiary was very much his values. However, this founder had a very participative leadership style and this differed from First Automotive's more autocratic approach. The other difference that must be highlighted is the communication style. There is a well-established communication network in Swedish Consultancy and every employee in the firm knows what is happening that keeps all employees well informed of any news.



Table 9.3: OC influences on the post-acquisition process

Organisational culture dimensions	First Automotive	Swedish Consultancy	Evidence from interviews, questionnaire responses and observations	Problems caused during post-acquisition process
<b>Goal and value alignment</b> (Refer to Appendix 4 for mean score calculation  0 represents large MNE characteristics; 10 represents small entrepreneurial characteristics)	<i>Overall mean:</i>  4.00  Bureaucratic MNE  Short-term orientation	<i>Overall mean:</i>  7.50  Higher customer responsiveness  Entrepreneurial firm	<p>“We have a longer-term view of achieving goals than First Automotive. First Automotive put a lot of emphasis on quarterly goals and don’t see the big picture of the long term.” – Co-founder, Swedish Consultancy</p> <p>“There is little conflict on our values with First Automotive. We both want to meet and satisfy our customers’ needs.” – Finance Manager, Swedish Consultancy</p> <p>“Our goals could be American goals. There is no conflict at all. We want profits and satisfy customers’ needs, just the same as in First Automotive.” – HR Manager, Swedish Consultancy</p>	<p>“Since we are more concerned about long-term goals, we tend to deviate on the short-term goals and this does not matter as long as the long-term goals are met. However, this is not accepted in First Automotive. So now we have to strictly follow their short-term goals, it is tougher for us to accept that till today.” – Co-founder, Swedish Consultancy</p>
<b>Structures and controls</b> (Refer to Appendix 5 for mean score calculation  0 represents unstructured, informal and few controls characteristics; 10 represents highly structured, formal and controlled characteristics)	<i>Overall mean:</i>  9.17  Centralised decision making  Process-oriented  Strict controls over employees (e.g. internet, personal telephone calls,	<i>Overall mean:</i>  3.23  Flat structure  Less process oriented  Low standardisation	<p>“We are quite structured in terms of different levels of management. However, mentally I think everybody views each other as the same level. For example, we openly argue with our managers here, but I know this is not possible in the US or Germany,” – Co-founder, Swedish Consultancy</p> <p>“They had some issues with personnel policies and financial policies but not the organisational structure.” – Ex-Director of International Business Unit, First Automotive</p>	<p>“... we have procedures that at first glance seemed stupid. Better do it than struggle. For example, First Automotive came and said that employees were not allowed to visit porno sites, not allowed for personal usage, as the computer is a company asset. Not allowed to download software that we do not have licence for, as it will bring virus to the system. When these rules were first introduced, we had many questions. We question why we have to do this and that.” – Finance Manager, Swedish Consultancy</p>



	etc.)			<p>“Reporting, reporting, reporting. If you focus on numbers, we had a lot of reporting to do that we cannot do the business. Also it does not help that we have a very lean organisation here in Sweden with only two people in charge of reporting financial figures” - Finance Manager</p> <p>“We need superior approval for everything. How are we supposed to work? This will ruin Swedish Consultancy following all these procedures, drag down Swedish Consultancy as we cannot be efficient, without flexibility...” -- Co-Founder, Swedish Consultancy</p>
<b>Leadership orientation</b> (Refer to Appendix 6 for mean score calculation 0 represents abdicate leadership; 10 represents autocratic leadership)	<i>Overall mean:</i> 4.78 More top-down approach	<i>Overall mean:</i> 3.34 Charismatic founder More participative leadership style	<p>“It was his company and you could not take him out of the company because the customers totally respected him and the company and his contacts were really senior in the automotive industry.” – European HR Director, First Automotive</p> <p>“...the Swede’s way...I would say the manager is more democratic.” – HR Manager, Swedish Consultancy</p> <p>“We manage by values not objectives. Our culture is to respect people first. We try to take decisions as a team. Bosses here do not take decisions without approval from the team.” – Finance Manager, Swedish Consultancy</p>	<p>“...the problem started when they forced us to implement processes that we saw as pointless....there were decisions that they made that we did not agree upon...probably that is why First Automotive had forces to struggle against and why it took a long time during the post-acquisition process.”</p> <p>“There is a lot of top-down approach now as compared to prior to the M&amp;A.” – Finance Manager, Swedish Consultancy</p> <p>“There was a lot of telling you what to do, can do or cannot do, following strictly to the rules. We were not used to this type of management and it was difficult for us to accept it.” – Co-founder, Swedish Consultancy</p>
<b>Communication styles</b> (Refer to Appendix 7 for mean	<i>Overall mean:</i> 6.34	<i>Overall mean:</i> 4.04	<p>“We are a stubborn bunch of people. We cannot accept everything they want us to do. Our view is that we can accept new rules and</p>	<p>“In 1993, when we first got into First Automotive, we were told that we could not do certain things because it was just not First</p>



<p>score calculation</p> <p>0 represents informal and less structured style; 10 represents formal and high structured style)</p>	<p>Formal procedures</p> <p>Slower to disseminate</p>	<p>Very quick, informal, and open</p>	<p>procedures. But we always have to check whether there is an added value of the new rules before we accept.” - HR Manager, Swedish Consultancy</p> <p><u>Layout of office:</u></p> <p>“The way we work here is to maintain a continuous flow of information between managers and employees. This way any problem does not just suddenly show and appear big.” – Co-founder, Swedish Consultancy</p> <p>There was one central big office space with tables and low partitions to divide individual workstations. Although in the US this was also practiced at the headquarters, the partitions had different colours and heights to code the hierarchy of the organisation (hidden formality). However, in Sweden, all the partitions were of the same height and of the same colour. There was no distinction between the manager’s workstation and a secretary’s workstation.</p> <p><u>Efficient communication process</u></p> <p>“Swedish Consultancy had a good communication process. If they had anything to communicate, you could be almost assured that the whole organisation heard the same message.” -- Ex-Director of International Business Unit, First Automotive</p>	<p>Automotive policies, but they never got us to understand why we could not do those things. Now after nine years we have learnt we cannot change the rules, so it takes time to get used to things.” - Finance Manager, Swedish Consultancy</p> <p>“In Swedish Consultancy, the major communication difficulties were really the contest of wills – of explaining why we had to make the changes and the necessity to make those changes. There was also the geographical spread of three different locations in Sweden, so communication difficulty in terms of location was present.” – Ex-Director of International Business Unit, First Automotive</p>
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			<p>This quote is supported by the author’s visit: When the author arrived for the site, she realised that everybody at the company knew of her arrival and was there to conduct her research. This information was communicated by e-mail a day before arrival to inform the employees of a visitor.</p> <p><u>Informal greeting mannerisms</u></p> <p>In addition, during the author’s site visit, the managing director suddenly addressed the employees about the success of an event and praised the employees for their excellent job during their breakfast break. This informality was also observed from the greeting mannerisms between employees and management. Everybody in the company greeted each by their first names and there was a sense of camaraderie in the company that was not observed in the other companies the author visited.</p>	
<p><b>Interpersonal relations</b></p> <p>(Refer to Appendix 8 for mean score calculation</p> <p>0 represent excellent interpersonal relations; 10 represent poor interpersonal relations)</p>	<p><i>Overall mean:</i></p> <p>5.07</p>	<p><i>Overall mean:</i> 3.05</p>	<p><u>Strong camaraderie among the employees</u></p> <p>“We respect our employees here and we are buddies.” – Finance Manager, Swedish Consultancy</p> <p>Best score of managers listening to problems and complaints from employees.</p> <p>Also it also had a good score of managers treating employees fairly and consistently</p>	<p>“When we come now and say ‘ok we like that but we also want you to follow all the processes and procedures and you have to change your mind-set to First Automotive thinking. We would have killed the spirit of the company if this was not changed.”-- European HR Director, First Automotive</p>
<p><b>Motivation, staffing, training</b></p>	<p><i>Overall mean:</i></p> <p>4.62</p>	<p><i>Overall mean:</i> 4.92</p>	<p>“We have profit-based rewards. Good motivation factor for the employees.” – Co-</p>	<p>“There was not much difference between our motivation, staffing and training package</p>



<p>(Refer to Appendix 9 for mean score calculation)</p> <p>10 represent high levels of de-motivation levels, poor staffing and little training)</p>		<p>No formal procedures</p> <p>Good level of motivation, sufficient staffing, and good amount of training.</p>	<p>founder, Swedish Consultancy</p> <p>“We have frequent training for our employees such as motor training to keep them updated on the latest technology. Also, we value people of high education and tend to employ people with at least a masters’ degree as it is the nature of our business to be innovative and technologically advanced.” – HR Manager, Swedish Consultancy</p>	<p>between Swedish Consultancy and First Automotive. Therefore there was no conflict.”</p> <p>– Finance Manager, Swedish Consultancy</p> <p>They had some issues with personnel policies and financial policies but not the organisational structure.” – Ex-Director of International Business Unit, First Automotive</p>
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Source: Author, based on interviews conducted at Swedish Consultancy and First Automotive in 2002



### 9.2.2 NC Dimensions

This section discusses the similarities and differences between the American and Swedish cultures. Table 9.4 displays the dimensions discussed in Chapter 3 and analyses the differences between the two national cultures according to the evidence from the survey (means) and interview data.

The following quote is interesting on how one Swedish interviewee defined NC:

*“Similarities between western national cultures are often on the surface. You will not know the differences until you go deep down. The differences, especially behaviour, are more evident outside office hours.”*

Finance Manager at Swedish Consultancy

There were more similarities than differences in NC between Sweden and the US. As seen in the next quote by the ex-director of international business unit in First Automotive: *“In Sweden, they are pretty much like the US”*. These similarities made it much easier for both firms to understand each other better.

However, there were certain distinct differences between the two countries, notably, the differences toward time orientation; tolerance to uncertainty and other cultures; and to some degree the differences in the first language.



Table 9.4: NC influences on the post-acquisition process

National culture dimensions	US	Sweden	Evidence from interviews, questionnaire responses and observations	Problems caused during post-acquisition process
<b>Individualism vs. collectivism</b>  (Refer to Appendix 10 for mean score calculation  0 represents collectivism; 10 represents individualism)	<i>Overall mean:</i> 6.76	<i>Overall mean:</i> 3.03  Less individualistic	<p>“We are close. We are friends as we have been working together for a long time.” - Finance Manager, Swedish Consultancy</p> <p>“There is much more teamwork in Sweden as compared to in America. Very much more.” – HR Manager, Swedish Consultancy</p>	<p>“It is very difficult to get a decision out of Swedish people and this might have frustrated the Americans. This is because the Swedish people spend a lot of time trying to get everyone’s opinions, really discuss with everybody before arriving at a decision or implementing a decision.” – HR Manager, Swedish Consultancy</p>
<b>Language</b>  (Refer to Appendix 11 for mean score calculation  0 represents a neutral society 10 for an affective society)	<i>Overall mean:</i> 2.75	<i>Overall mean:</i> 4.63  Highly explicit and neutral culture	<p>“The Swedes are very nice, extremely open and liberal and very calm people” - European HR Director, First Automotive</p> <p>“The Americans use a lot of nice words. We, Swedes, wonder why they (Americans) use words they do not really mean. It is no point for them to say the job was terrific if it is not. If the job was not well done, then he should not say it was, they should just say it was pretty good. We feel they are not being honest.” - Finance Manager, Swedish Consultancy</p>	<p>“From experience, the Americans exaggerate their words. Terrific means pretty good, fantastic is not really fantastic. For example ‘Passion for Excellence’ in their company handbook describing their corporate culture. To the Swedes’ ears, that sounds ridiculous, exaggerated seriously overdoing the message.” - Finance Manager, Swedish Consultancy</p> <p>“We do not do any translations, we take the information as it is, for better or for worse. But we can see the words used in the company literature are always exaggerated.” – Finance Manager, Swedish Consultancy</p>



<b>Time orientation</b> (Refer to Appendix 12 for mean score calculation 0 represent linear, short-term view; 10 for long-term view)	<i>Overall mean:</i> 3.73	<i>Overall mean:</i> 6.30  Time is experienced as less limited and less simultaneous  Long-term orientation	“We are slow in making decisions. Takes a lot of time.” – HR Manager, Swedish Consultancy	Even though punctuality is respected in Sweden, the people tend to have a longer-time orientation about the future. The Swedes tend to allocate more value on thinking than doing, they tend to spend much more time analysing and planning before taking any action.
<b>Tolerance to uncertainty and other cultures</b> (Refer to Appendix 13 for mean score calculation 0 for low tolerance; 10 represents high tolerance)	<i>Overall mean:</i> 3.48	<i>Overall mean:</i> 6.54	“We try to adapt because nobody outside of Sweden understands our language and culture and we do not expect them to.” - Finance Manager, Swedish Consultancy	



<b>Power orientation</b> (Refer to Appendix 14 for mean score calculation) 0 for low power orientation; 10 represents high power orientation)	<i>Overall mean:</i> 3.26	<i>Overall mean:</i> 3.20 Lower power distance between managers and subordinates	<p>“They respect managers here. People here are like buddies and more open discussion on the same level. Of course there is limitation at higher ranking levels.” – Co-founder, Swedish Consultancy</p> <p>The Swedes have less concern with power and status as compared to their American counterparts. There was also evidence from the interviews that the Swedes place more value in participation in decision-making than the Americans. The Swedes believe that everybody has a right to contribute to the decision through consensus.</p>	<p>“We do not take orders. Therefore we fought against the integration process and the adoption of new processes. We are a very stubborn bunch of people” – Finance Manager, Swedish Consultancy</p> <p>“We did not understand the rationale behind the post-acquisition changes that we were ordered to do. Swedes are reluctant to follow orders. We questioned everything: Why do I have to do this? What is in it for me? Would you like to have a cup of coffee? Why should I have coffee? Everything is questioned” – Finance Manager, Swedish Consultancy</p>
<b>Masculine vs. femininity</b> (Refer to Appendix 15 for mean score calculation) 0 represents a feminine society; 10 represents a masculine society)	<i>Overall mean:</i> 6.48	<i>Overall mean:</i> 3.90	<p>“In my experience, Swede people are a bit slow, shy, and people of not many words.” – HR Manager, Swedish Consultancy</p> <p>The Swedes value an excellent working environment and this is seen in Swedish Consultancy where daily breakfasts and snacks at teatime are provided for every employee. The working conditions in Swedish Consultancy also displayed this attitude of a good working lifestyle. The office is designed with top-quality materials, and employees are allowed to speak to one another any time of the day.</p>	

Source: Author, based on interviews conducted at Swedish Consultancy and First Automotive in 2002



### 9.3 POST-ACQUISITION MANAGEMENT OF SWEDISH CONSULTANCY

This next section discusses in detail the post-acquisition management process that took place in Swedish Consultancy between 1993 and 2002 highlighting the post-acquisition changes and employee behaviour at the acquired subsidiary.

This M&A is classified as a domain extension strategy that is vertical in nature. The reason for classifying it as such is because First Automotive did not buy a company that was similar to its manufacturing business activities. Swedish Consultancy was strictly in the consultancy business where product designs are subcontracted to manufacturers. Furthermore until today, the employees in Swedish Consultancy see First Automotive only as a customer and not as a parent company. This was also very evident during the author's site visit. There were no signs or logos at the site that indicated that it was part of First Automotive. The company still operates under its original name in all its business contacts and negotiations.

According to Haspeslagh and Jemison's (1991) study, this type of acquisition strategy requires the adoption of a symbiosis or preservation strategy. The preservation strategy was initially adopted as seen in the following quote:

*"We never did change much as it was primarily an engineering function, it was a single entity that fitted within First Automotive's structure of advanced engineering, and they did not do manufacturing. So it was much easier to leave them alone."*

Director of International Business Unit (retired), First Automotive

However, just like its other European M&As in the early 1990s, First Automotive used a common integration plan without taking into consideration the type of acquisition and relevant degree of integration. In this M&A, headquarters initially adopted the preservation strategy then switched to absorption strategy for a couple of years then switched back to the preservation strategy in 2000:

*"We are a huge corporation that bought a small consulting business. This is a cultural perspective, we are a large manufacturing firm and we bought people, skills and the creativity and the intelligence of people in a small environment. When we come now and say ok we like that but we also want you to follow all the processes and procedures and you have to change your*



*mind-set to First Automotive's thinking. We would have killed the spirit of the company if this was not changed. Therefore, the governance was finally issued in 2000, when we realised this."*

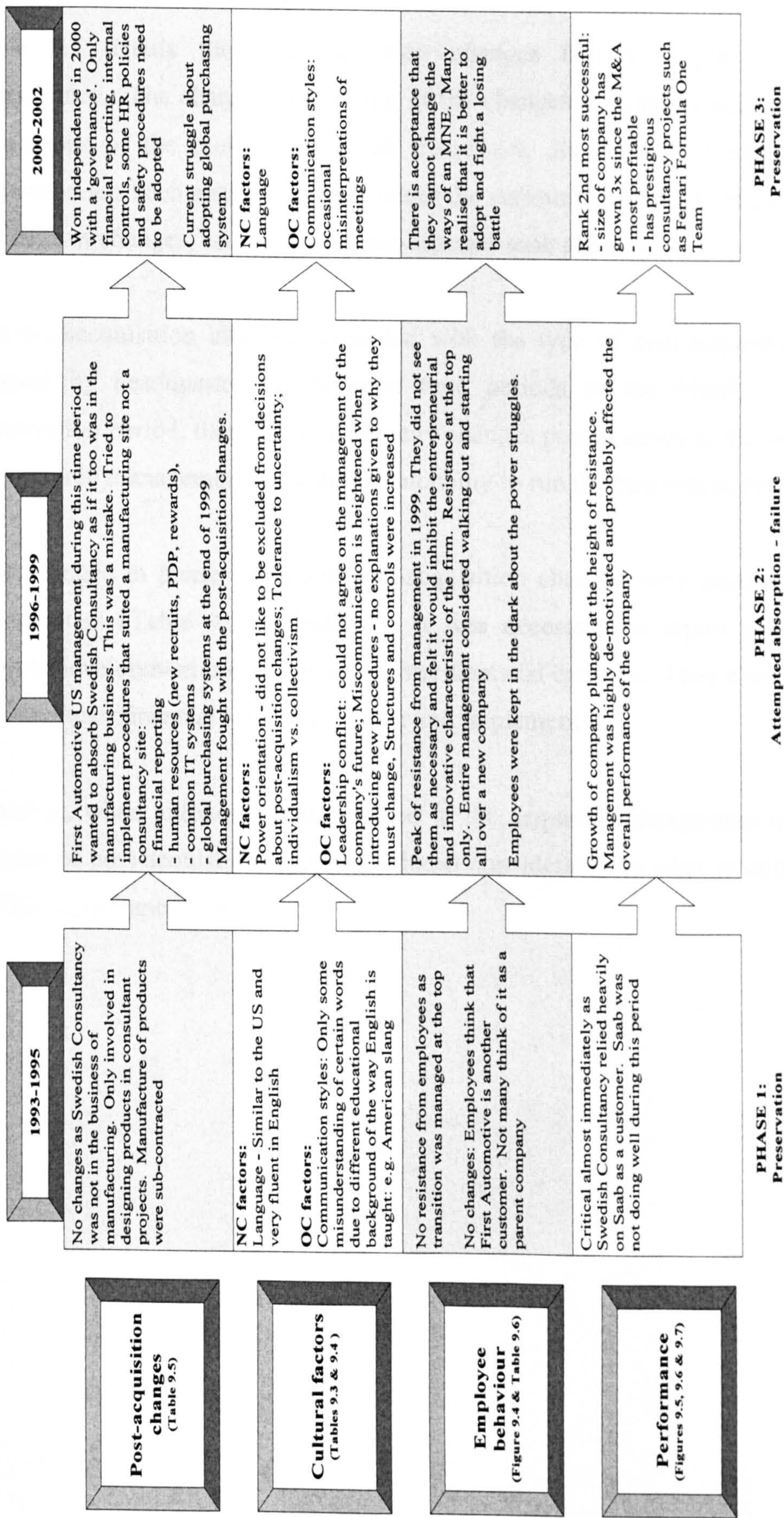
European HR director, First Automotive

It must be highlighted that during interviews with the strategists from both First Automotive and Swedish Consultancy, there was an agreement that First Automotive had little experience in managing M&As. For example, in the beginning of the post-acquisition process, the acquired management felt that the top management at First Automotive did not really have a plan on how to combine both companies. Hence, there was a lack of a formal on-site integration team or coaching team to assist the post-acquisition integration/strategy.

A summary of the post-acquisition management of this case is seen in Figure 9.3. This figure discusses the M&A under four sub-sections: 1) the timing and types of post-acquisition changes, 2) cultural influences, 3) employee behaviour in French Security, and finally 4) the performance variances of the subsidiary since the M&A. Then, each sub-section is analysed according to the three phases of post-acquisition management that took place between 1993 and 2002: preservation, attempted absorption and preservation.



Figure 9.3: Post-acquisition management process of Swedish Consultancy



Source: Author, based on interviews and field survey conducted in Swedish Consultancy and First Automotive in 2002



### ***9.3.1 Post-acquisition changes***

Table 9.5 details the post-acquisition changes that took place in Swedish Consultancy. The changes and timing of the changes are categorised under the OC dimensions of the multi-dimensional framework discussed in Chapter 3. Each dimension has been analysed further under the various departments of the subsidiary, the areas of changes, and the phases the changes took place in.

The post-acquisition changes coincided with the type of post-acquisition strategy adopted by headquarters at different time periods of the M&A. During the preservation period, there were hardly any changes passed down to the subsidiary as the acquired management were given autonomy to run the business as before.

This changed in phase two when post-acquisition changes were passed down from headquarters (Table 9.5). Suddenly, it was necessary to report every activity, product development procedure and tighter financial controls. They also had to learn the American financial reporting system and implement it.

However, when autonomy was reissued to the acquired management in 2000, the amount of post-acquisition changes reduced considerably to what is only necessary for this consultancy firm.



Table 9.5: Post-acquisitions changes in Swedish Consultancy

OC dimensions	Departments involved	Areas of changes	PHASE 1: Preservation; 1993-5	PHASE 2: Attempted absorption; 1996-99			PHASE 3: Preservation; 2000-02	
			0-2 years	2-4 years	4-6 years	6-8 years	8-10 years	
Goal & value alignment	Overall	More financial less strategic primary orientation		✓	✓	✓	✓	
		Retention of decisions about company scope/direction		✓	✓	Not anymore. A discussion during board meetings takes place		
		Retention of decision about major contracts	No. Management at Sweden decide and report decision to First Automotive					
		More short-term oriented		✓	✓	✓	✓	
Structures & controls	Overall	More levels of hierarchy		✓	✓	Decreased due to governance		
		More formalized planning		✓	✓	✓	✓	
		More centralised decision-making		✓	✓	Decentralised again		
		More use of automation/IT						
	Finance	More use of parent financial control systems	Did not follow			✓	✓	
		Capital expenditures requires final approval by parent company	Did not follow			✓	✓	
		More cost control systems	Did not follow			✓	✓	
	R&D	Retention of decisions of new products	Not interfered					
		New product development procedures	Have their own set of procedures					
		More implementation of TQM	Only a consultancy service					
Communication styles	Purchasing	Less development on new products	Have always remained active					
		New global purchasing procedures					✓	
	Overall	More top-down style		✓	✓	Not anymore: a partnership		
		More formal meetings		✓	✓	✓	✓	
	Overall	More open form of communication	Very little	Acquired management was very secretive		More open & trusting		
More explicit in terms of written documents such as procedures				✓	✓	✓	✓	



Interpersonal relations	Sales & Marketing	Less customer involvement	Always maintained close customer contact		
			Always maintained high standards of service		
			Indirect	Very poor	More open & trusting
Motivation, staffing, training	Human Resource	Implementation of group working/work teams	Not applicable		
		Less ad hoc career development		✓	✓
		Increased formalised training		✓	✓
		More performance related rewards	✓	✓	✓
Leadership orientation	Overall	More centralised strategic decision-making		✓	Decentralised in Sweden except for big decisions
		More than one manager to report to (matrix)		✓	Not anymore. Report directly to board of directors
		Managing director appointed by parent company			✓
		Finance manager appointed by parent company	Still the original manager from time of foundation		
	Finance	HRM manager appointed by parent company			✓
	HRM	Engineering manager appointed by parent company			
	R&D	Marketing manager appointed by parent company	Still the original manager from time of foundation		
	Marketing	Purchasing manager appointed by parent company	Not applicable		
	Purchasing		Not applicable		

Source: Author, based on interviews conducted at Swedish Consultancy and First Automotive in 2002



### 9.3.2 Post-acquisition behaviour

The employee behaviour coincided with the amount of post-acquisition changes implemented into the subsidiary. The levels of resistance differed in the three post-acquisition phases for this M&A.

As a whole, perceptions of the interviewees from headquarters agreed this M&A displayed the lowest level of resistance, and whatever force of resistance was only confined to the management level of the subsidiary. This is reflected in the resistance formula created by the current author and seen in Figure 9.4. The current level of resistance as of 2002 was  $R = 1.50$ , indicating that there is very low resistance to the acquirer. The low levels of resistance suggest tentatively that when a preservation strategy is adopted in an M&A, there is very little resistance to the acquirer because the firm is 'left-alone'.

In this M&A, the employee behaviour recorded is limited to the acquired management behaviour as the post-acquisition process was only managed at the top. When changes were introduced to the subsidiary, the management strongly opposed them as seen next:

*"...we are used to doing things as we wanted and have been doing it successfully for many years with really good margins, we made excellent profits here. So we felt that we knew our business best and they shouldn't be coming telling us how to do our jobs..."*

HR Manager, Swedish Consultancy

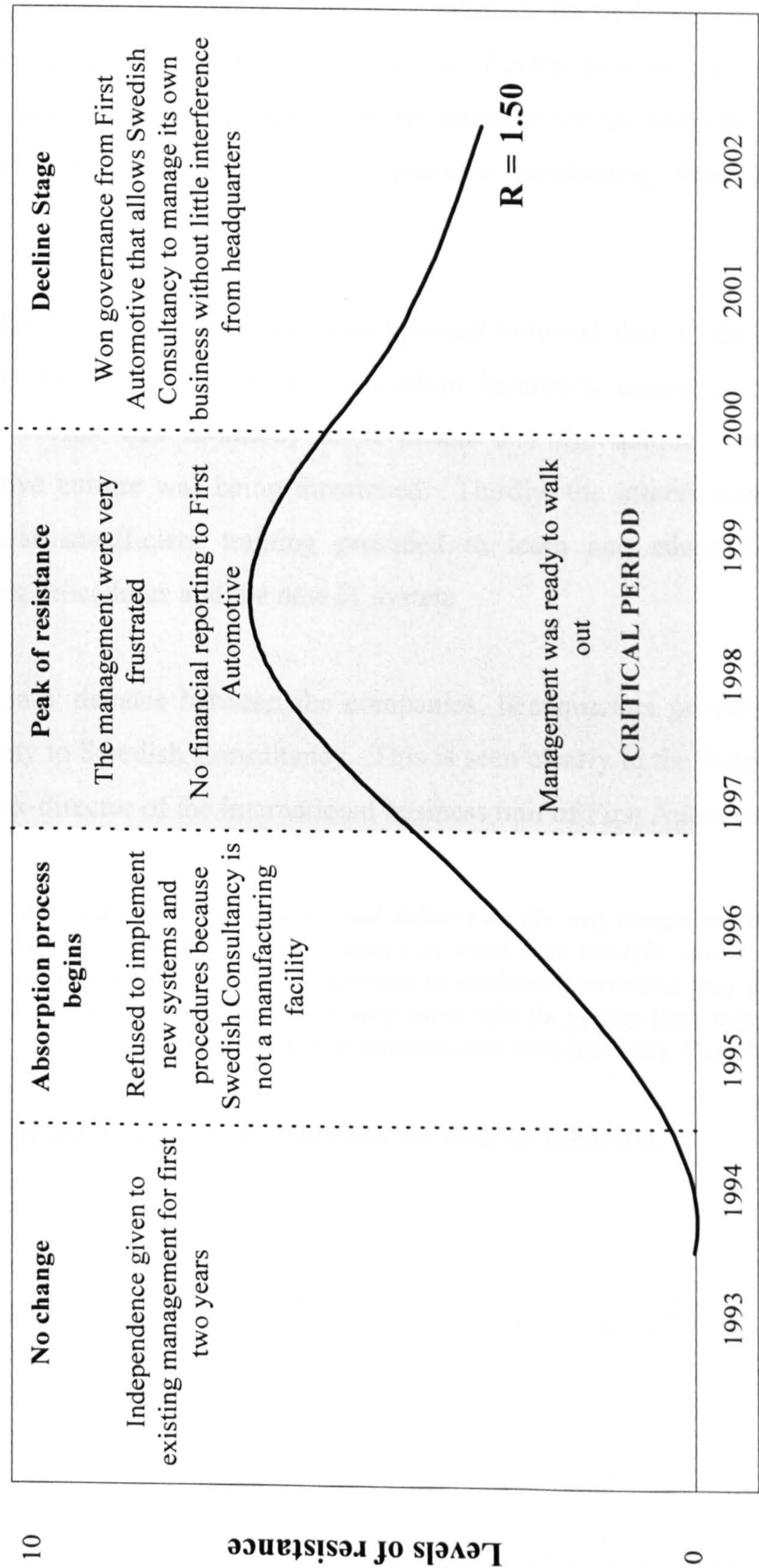
This frustration increased when Swedish Consultancy failed their first corporate audit performed by First Automotive in 1996. It was the first time in their fourteen-year history that they were told they were not doing a good job, when all this time they felt they were leading experts in their field as seen in the following interview quote:

*"The corporate audit made us from being quite proud on what we are doing and how we are handling things to a feeling of dejection. Suddenly we were very poor in performance...it seemed that everything we did was poor performance. The attitude among the staff worsened."*

Finance Manager, Swedish Consultancy



Figure 9.4: Differing levels of resistance in post-acquisition process



Source: Author, based on NC and OC dimensions means scores, where R = 10 represents highest level of resistance and R = 0 represents lowest level of resistance)  
(Refer to Figure 5.11 for resistance formula)



The acquired management was adamant about not adopting unnecessary procedures that were suitable for a multinational manufacturing facility instead of an entrepreneurial consulting facility. Their rationale for their resistance to adopting the new procedures and policies were threefold. Firstly, they were a small company and did not have the resource capabilities (in terms of capital and staff) to adopt a large company's detailed procedures for example purchasing, financial reporting and others.

Secondly, Swedish Consultancy management believed that it was not necessary for them to follow the policy and procedure handbook meant for a manufacturing facility. This was foolhardy as it meant that the unique, flexible and highly innovative culture was being threatened. Thirdly, the interviewees mentioned that there was insufficient training provided to learn and adopt the new financial reporting procedures and the new IT system.

After many debates between the companies, headquarters provided governance or autonomy to Swedish Consultancy. This is seen clearly in the following quote made by the ex-director of the international business unit of First Automotive:

*"We had much more intellectual debates on the way things had been, but if they (Swedish Consultancy) didn't fit what they thought would have been successful, they were most reluctant to implement anything, they didn't want to be burdened and they were very successful (in getting their way)."*

Ex-Director of International Business Unit, First Automotive

Other cultural influences on behaviour are seen in Table 9.6.



Table 9.6: Culture influences on resistance

Year	Post-acquisition phase & resistance	Evidence from interviews	First Automotive management of phase	Cultural dimension involved	
				NC	OC
1993-1995	<b>Preservation:</b> No post-acquisition changes		“The transition was easy and most people did not notice a change in ownership. It was managed at the top.” - Co-founder, Swedish Consultancy	Language	Communication styles
1996-1999	<b>Attempted absorption:</b> Peak of resistance around 1998/9	<p>“The corporate audit made us from being quite proud on what we are doing and how we are handling things to a feeling of dejection. Suddenly we were very poor in performance...it seem that everything we did was poor performance. The attitude in among the staff worsened” Finance Manager, Swedish Consultancy</p> <p>“... we are used to doing things as we wanted and have been doing it successfully for many years with really good margins, we made excellent profits here. So we felt that we knew our business best and they shouldn't be coming telling us how to do our jobs...”Finance Manager, Swedish Consultancy</p>	<p>“First Automotive seem inexperienced in taking over a company. My impression was that there was no real plan on what they should do and what will happen afterwards. Right or wrong that was my impression.” - Finance Manager, Swedish Consultancy</p> <p>“...I think First Automotive failed in that perspective as no such communication effort existed immediately after the deal had been executed. First nothing happened, then suddenly we should do this and that and we should all be integrated and expect to follow First Automotive policies and procedures without the faintest idea about what they were and then we were audited without knowing the policies and procedures...” - Finance Manager, Swedish Consultancy</p> <p>“They used to say ‘you should not recruit, if you do we take disciplinary actions’ also used to tell us that ‘you should fill in this form by the 15<sup>th</sup> of each month, if you don’t</p>	Power orientation,  Language  Masculinity vs. Femininity  Individualism vs. Collectivism	Leadership  Communication styles,  Motivation/staffing/training,  Structures & controls



			we will take disciplinary actions'. This disciplinary action could be either a decrease in salary or being dismissed from the job. We used to joke that we were fired three times a week.” -Finance Manager, Swedish Consultancy		
2000-2002	<p><b>Preservation:</b> Satisfied &amp; happy management &amp; employees</p> <p>Acceptance that they cannot change an MNE policies and rules</p>	<p>“In 1993, when we first got into First Automotive, we were told that we could not do certain things because it was just not First Automotive policies, but they never got us to understand why we could not do those things. Now after nine years we have learnt we cannot change the rules, so it takes time to get used to things.” - Finance Manager, Swedish Consultancy</p>	<p>“We are a huge corporation that bought a small consulting business. This is a cultural perspective, we are a large manufacturing firm and we bought people, skills and the creativity and the intelligence of people in a small environment. When we come now and say ok we like that but we also want you to follow all the processes and procedures and you have to change your mind-set to First Automotive’s thinking. We would have killed the spirit of the company if this was not changed.” - European HQ Director, First Automotive</p>	Language	Communication styles

Source: Author, based on interviews conducted at Swedish Consultancy and First Automotive in 2002



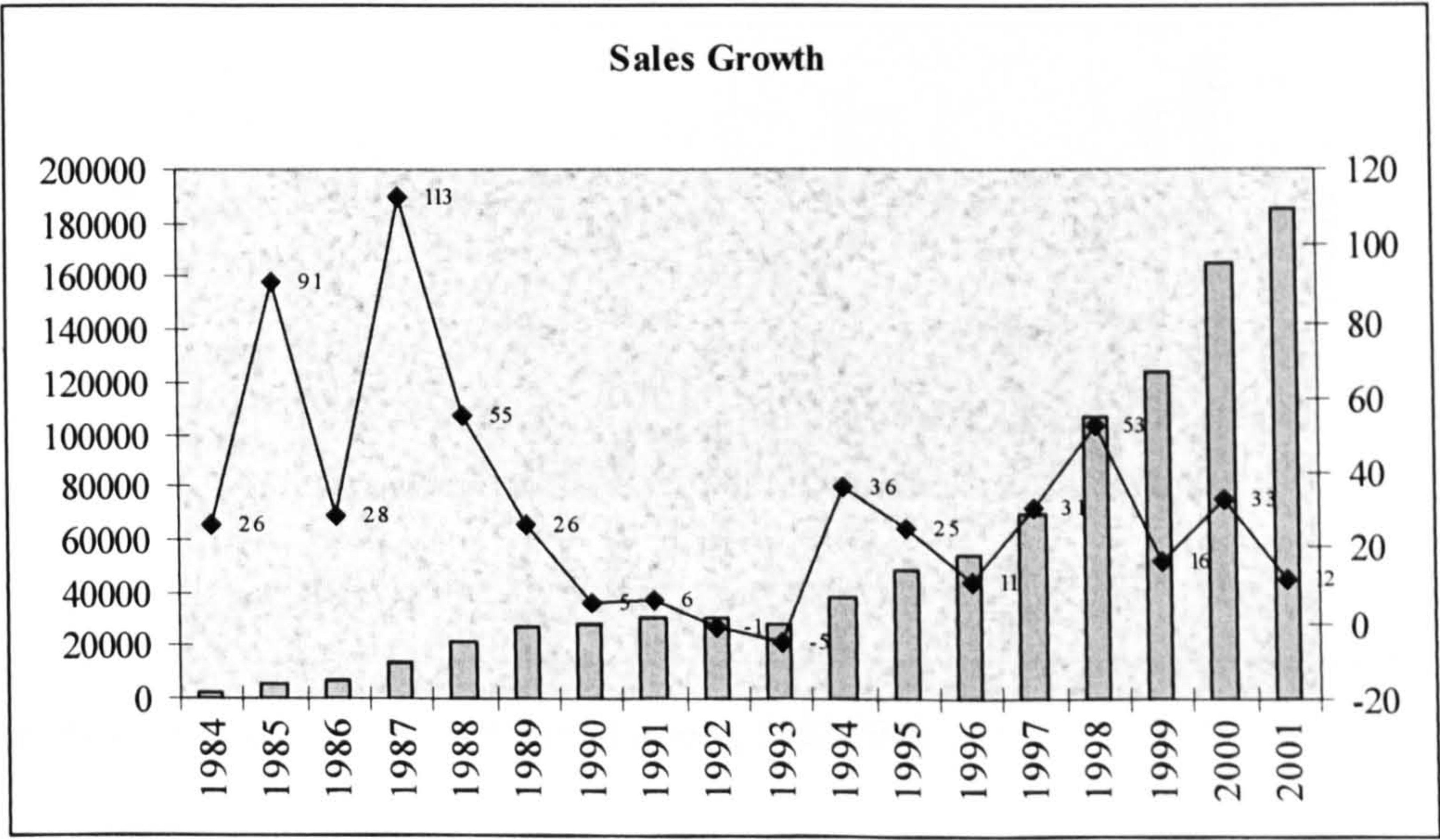
9.4 OVERALL PERFORMANCE OF M&A

This M&A is considered to be the second most successful deal undertaken by First Automotive in this study. The justification is seen in three performance figures that First Automotive uses to monitor the progress of every M&A. These include sales growth, profit margins and firm size growth.

9.4.1 Sales growth

Swedish Consultancy has grown from strength to strength over the years. It has become a leading player in product development and consultant services for automotive multimedia functions. Its success is based upon the ability to identify early new driving forces and rapidly turn their skills into pioneering products and technical solutions. Examples are mobile multimedia and diagnostics for cars and trucks, as well as engine management systems for Saab Trionic and Formula-1 engines and locomotives. Their customer base includes the world leaders in their respective fields. Their sales have grown by over six-fold since the M&A and sales peaked at 185 millions SEK in 2001 (Figure 9.5).

Figure 9.5: Sales growth of Swedish Consultancy



Source: Based on company annual financial reports, 1982-2001

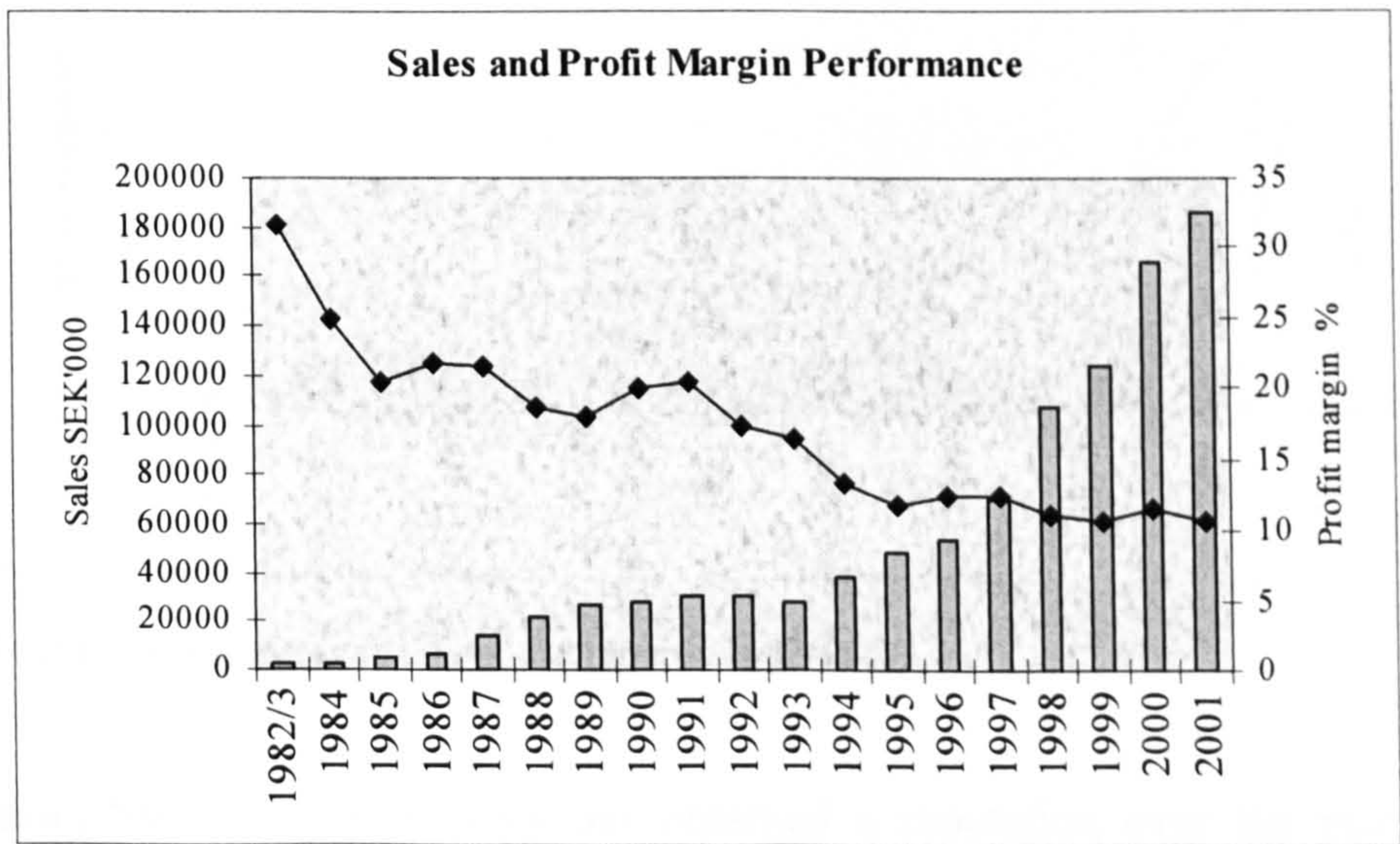


In 1993, when First Automotive took over Swedish Consultancy, the growth was below par at -5%. However, since the acquisition, Swedish Consultancy has managed to grow at an annual average rate of 27% thus highlighting the success of the post-acquisition management. It is interesting to note that in between 1994 and 1996 and again in 1999, sales performance decreased. This coincides with the resistant behaviour of the management in phase two of the post-acquisition process. During this phase many cultural influences were affecting management behaviour as discussed in earlier sections.

### 9.4.2 Operating income

The profit margin is measured as income after finance and this performance figure too has been favourable throughout the post-acquisition process. The average annual profit margin since the acquisition in 1993 has been 11.75%. However, it must be noted that before the acquisition, profit margins were much higher for Swedish Consultancy, averaging around 21% per annum (see Figure 9.6).

Figure 9.6: Operating income for Swedish Consultancy



Source: Based on company annual financial reports, 1982-2001

The profit margins have steadily decreased because the novelty of the company's services has faded as rivals set up similar consultancies. However, the management



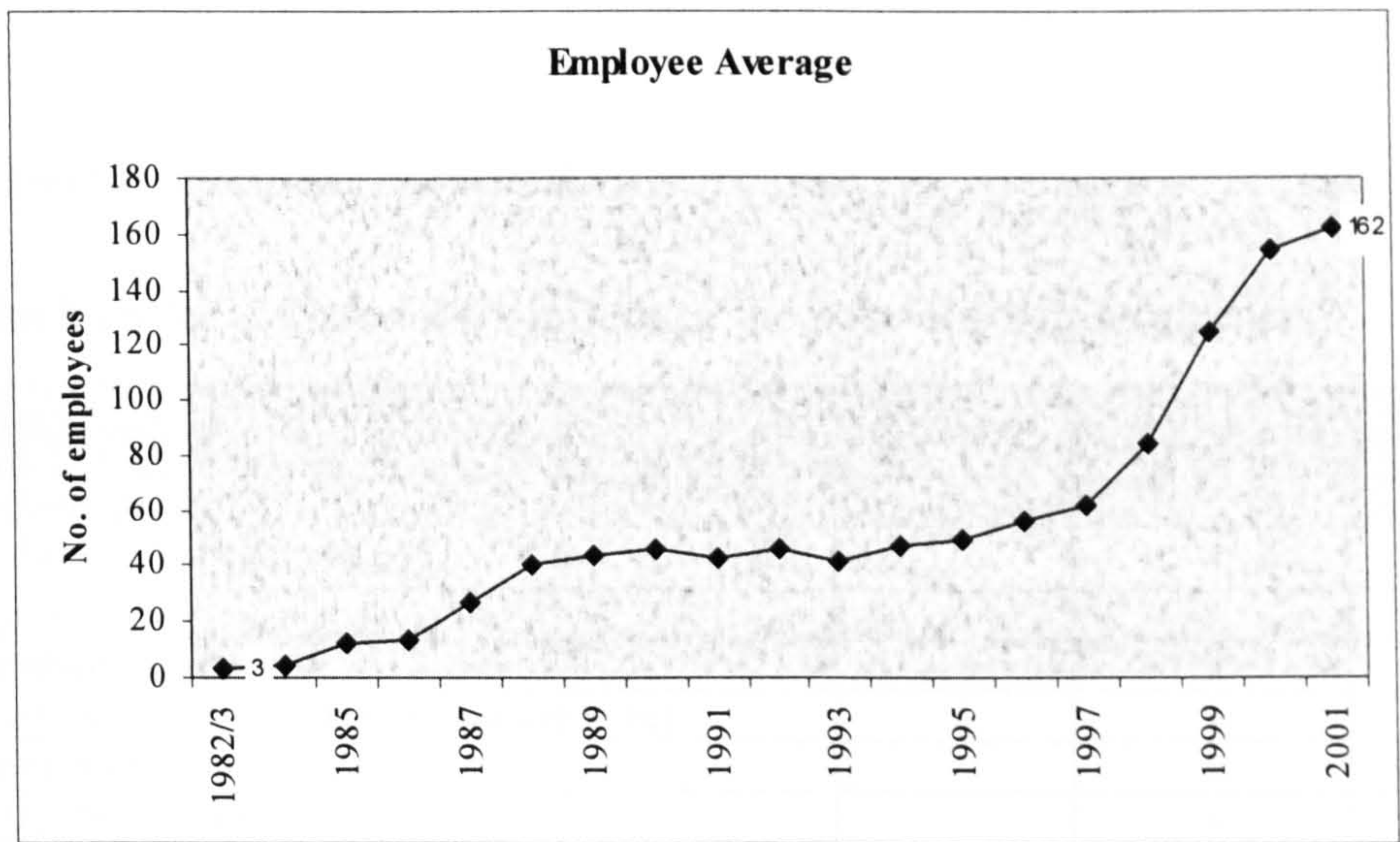
at First Automotive are still satisfied with the profit margin growth, as the Swedish company is exceeding the annual 10% growth it expects of all its subsidiaries.

It must be noted that profits fell slightly between 1998 and 1999 the time of peak resistant behaviour from the acquired management. This behaviour was a result of the cultural differences between the two firms and the constant power struggle and debates about implementing post-acquisition changes in Swedish Consultancy.

**9.4.3 Employee growth**

In terms of the size of the company, it has grown steadily to accommodate the increasing customer base. Company size grew rapidly after the acquisition from 42 employees in 1993 to 162 in 2001 (see Figure 9.7).

Figure 9.7: Employee growth for Swedish Consultancy



Source: Based on company annual financial reports, 1982-2001

In addition, Swedish Consultancy has obtained a reputation over the years as an excellent employer and job vacancies are much sought after by the top graduates in Sweden.



9.4.4 Synergies achieved

This was a domain extension M&A, and the main motive for acquisition was the purchase of advanced engineering technology and skills. This synergy was immediately captured. Typical synergies of domain strengthening and extension acquisition do not apply in this case.

9.5 CONCLUSIONS

The chapter discussed a brief history of the company before the M&A followed by the motives for the M&A. Then the chapter highlighted the three post-acquisition phases of Swedish Consultancy. A major weakness in this M&A was the mistake to switch from the preservation strategy to an absorption strategy between 1996 and 2000. However, the management in the US realised this mistake and reverted to the preservation strategy. This chapter now concludes with some answers to the research questions developed for this thesis.

9.5.1 Research questions answered

1-i) Which cultural dimensions influence the post-acquisition process?

Cultural dimensions	Phase 1	Phase 2	Phase 3
National dimensions			
Individualism vs. collectivism (-ve)		√	
Language (+ve)	√	√	√
Time orientation (-ve)		√	
Tolerance to uncertainty and other cultures (+ve)	√	√	√
Power orientation (-ve)		√	
Masculinity vs. femininity (-ve)		√	
Organisational dimensions			
Goal and value alignment (-ve)		√	
Structures and controls (-ve)		√	
Leadership (-ve)		√	
Communication style (+ve)	√	√	√
Interpersonal relations (-ve)	√	√	√
Motivation, staffing and training (-ve)		√	

Notes: -ve represents negative influences; and +ve represents positive influences



**2-ii) Do NC and OC interact during the post-acquisition process?**

This case displayed the following interactions between NC and OC dimensions (see table below). The interactions only occurred at certain phases of the post-acquisition process. Some dimensions had more influence on the phase than others.

Interactions		Phase 1	Phase 2	Phase 3
NC	OC			
Individualism vs. collectivism	Leadership styles; Motivation, staffing and training		√	
Language	Communication style	√	√	√
Time orientation	Goal and value alignment		√	
Tolerance to uncertainty and other cultures	Interpersonal relations; Structures & controls	√	√	√
Power orientation	Leadership style; Communication style		√	
Femininity	Motivation, staffing and training		√	

Since the M&A was a domain extension strategy for First Automotive, absorption of Swedish Consultancy was minimal to financial systems. Therefore, the clashes between the firms were limited to management level. Hence, the differences in NC dimensions of language and power orientation played a bigger role in slowing the post-acquisition process as it affected greatly the communication and management process in the subsidiary.

**2a-i) How do differing NC and OC interaction influence the post-acquisition behaviour?**

This case showed that there were interactions between NC and OC dimensions and these influenced the post-acquisition process and the behaviour of the employees in the firm. However, as compared to the US culture to the German culture and the US culture to the French culture, the US culture and the Swedish culture seem to be much closer or similar in many ways. These similarities probably explain why the OC mean scores between the firms were minimal. Similarly, this is probably the reason as to why this M&A displayed the lowest level of post-acquisition resistant behaviour as compared to the other M&As.



**2a-ii) How does the acquirer manage these interactions and resulting behaviour?**

A critical incident in this M&A almost took place towards the end of 1999, when the acquired management seriously contemplated the idea of resigning and starting a rival company. If this had happened, the M&A could have been a failure as the management was the key success ingredient of this company. However, this was avoided as First Automotive incorporated a 'governance' to allow the acquired management to run as an independent entity who reported directly to the board of directors in the US headquarters.

**2c-i) Are cultural differences related to the cross-border performance?**

This has been the second most successful M&A conducted and some of the reasons are that there are more similarities than differences between the national cultures. Swedish Consultancy has grown in size, sales and operating income since the M&A and would not have done so successfully without being acquired.

**2c-ii) In what ways are cultural differences related to cross-border performance?**

The fewer the differences there are in NC, the more successful would be the post-acquisition management as there is a higher level of understanding between the companies. This was seen clearly in this case. The level of resistant employee behaviour was recorded as the lowest as compared to the other acquisitions and this has resulted in a more successful M&A as compared to German Security and French Security.

The next chapter will discuss the last case study, the fourth M&A conducted by First Automotive. It is an acquisition of a completely new product line – new technology in the industry.



# CHAPTER 10: ACQUIRING INTO GERMANY (2)

## 10.0 INTRODUCTION

This is the final case study illustrating and discussing the post-acquisition management process undertaken by First Automotive. It was an acquisition into the German hidden antenna market. This was a *domain extension* M&A, (concentric in nature) for First Automotive as it bought a completely new automotive technology and expanded in the German market to gain greater market power. Table 10.1 highlights the type of interviewees and a brief profile of their background for this case study.

Table 10.1: Interviewees’ profiles for German Antenna

Classification of interviewee	Company	Position held in company	*No. of years in service
Strategists	First Automotive, US headquarters	Retired Director of International Business Unit	30
		Assistant Finance Director	25
		M&A team member	
	German Antenna	HR Manager	19
Implementers	First Automotive, European headquarters	European HR Director	5
		European Finance Director	2
	German Antenna	Finance Manager	4
		R&D Manager	10
		Quality Manager	16
Receivers	German Antenna	Finance personnel	16
		R&D personnel	10
		IT personnel	5
Total number of interviewees for this case		12	
*Number of years in service as of 2002			
Note: Analysis of case study also includes the comparison of survey results of NC and OC between German Antenna and First Automotive			

Source: Author

## 10.1 BACKGROUND OF M&A

German Antenna was a division founded in 1983 within a large German telecommunications company. The automotive division, German Antenna, was founded only in 1990 when there was an increasing trend among end-customers in the automotive industry for hidden antenna systems in their automobiles. The antenna trends identified back in the early to mid-1990s initiated a shift from multiple discrete antennas towards an integrated antennas system. German Antenna



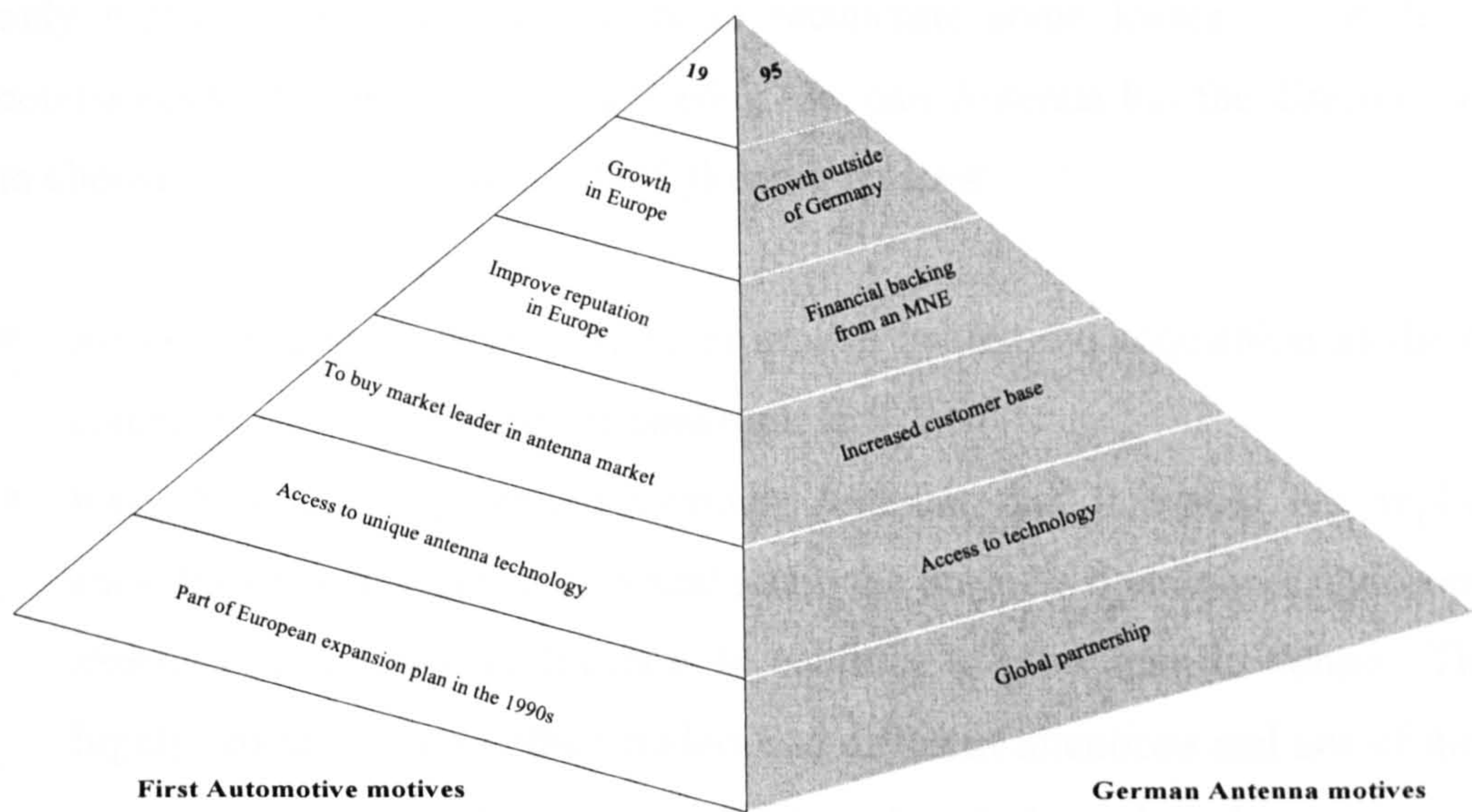
was the first company to come up with this hidden antenna technology and was instantly a market leader.

Today, the company has managed to sustain its market leader status as a supplier of automotive antenna systems. Furthermore, the company has retained its well-known German Antenna brand and has expanded into the mobile multimedia market. It has an estimated 70% of the world market share. Its nearest rival is Bosch Blaupaunk located not very far from the German Antenna’s site. Customers include Daimler-Chrysler, BMW, Audi, Volvo, Volkswagen, Hyundai, Kia and Porsche.

**10.1.1 Motives for M&A**

First Automotive acquired German Antenna for DM 90 million in September 1995. This was the most expensive acquisition as compared to the other three in this study. The motives for the M&A are analysed from both firms’ points of view as seen in Figure 10.1.

Figure 10.1: Motives for M&A



Source: Author

The headquarters’ motives for acquiring German Antenna include: 1) Access to proprietary technology. This was in-line with the headquarters’ vision of offering a



complete package of services to its automotive customers. 2) It was also to gain a stronger foothold in the German market with another purchase in the country. The motives are seen in the quote below:

*“The product line identified strategic intent to grow in the European market. They had a specific technology gap in the antennas, looking in the future and knowing that we are going to have satellite reception antennas, GPS, there was a recognition that the market was moving towards very high technology in the antenna circuit, that, and supplement to enabling a whole product portfolio. So the two main objectives were the market and the technology.”*

M&A team member, First Automotive

The intended synergies were to capture: 1) *global technology and market leadership* from complementary technology and system elements in automotive radio electronics and global customer base; and 2) *global operations* in manufacturing, engineering, purchasing and sales/marketing.

As for the subsidiary's point of view, the main motive was purely financial. Its mother company was on the verge of bankruptcy due to stiff competition in the antenna business overall. Therefore, it wanted to spin off the automotive division, its only profit-making business, to try to recuperate some losses. A few other companies were interested in purchasing German Antenna but the directors decided to choose First Automotive for the following reasons:

- Access to capital. It was the main motive behind the acquisition as the mother company was on the verge of bankruptcy;
- First Automotive promised German Antenna that it would not replace the subsidiary management and would retain the business operational philosophy and execution and allow the business to continue to grow into the future. This was highly crucial because other bidders had different intentions and one of them was to acquire German Antenna for its brand and then shut down operations to eliminate the competition; and
- Enhance growth opportunities as being part of a global automotive supplier. It would no longer just sell to the German market but to a worldwide network of customers.



To sum up, First Automotive acquired German Antenna for its unique technology and greater access to the German customer base. There were strengths, weaknesses, opportunities and threats associated with this M&A and these are seen in Figure 10.2.

Figure 10.2: SWOT analysis for First Automotive for acquiring German Antenna

<b>STRENGTHS</b> <ul style="list-style-type: none"><li>▪ Highly entrepreneurial</li><li>▪ Flexibility</li><li>▪ Brand image</li><li>▪ Market leader in Europe for antenna systems</li><li>▪ Technical expertise in hidden antenna system</li><li>▪ Existing manufacturing facility</li></ul>	<b>WEAKNESSES</b> <ul style="list-style-type: none"><li>▪ Small</li><li>▪ Lack of global presence</li><li>▪ Ability to manage growth</li><li>▪ Mother company was on verge of bankruptcy</li></ul>
<b>OPPORTUNITIES</b> <ul style="list-style-type: none"><li>▪ Larger customer base</li><li>▪ Larger technology base</li><li>▪ Provide innovative technical cost effective solutions</li></ul>	<b>THREATS</b> <ul style="list-style-type: none"><li>▪ Possibility of unsuccessful integration</li><li>▪ Stronger competition</li></ul>

Source: Author, based on interviews and archival records

10.1.2 Challenges in this M&A

The main challenges that occurred in the post-acquisition process of this M&A can be summarised as follows:

- This was First Automotive’s fourth M&A into Europe and its second acquisition into Germany. The US management were therefore more experienced in managing the post-acquisition process and applied their knowledge it gained in the previous three M&As.
- The acquirer faced less resistance when post-acquisition changes were communicated to the management and employees in German Antenna. Although the changes were similar to those in German Security and French Security, the management and employees were more willing to accept these changes as they were implemented.
- A clash of cultures, which contributed to the resistant behaviour, was seen in this acquired firm. However, the differences were more sensitively managed as compared to the other three M&As.



- As in the first two M&A, the post-acquisition resistant behaviour was experienced initially among the top management and at the employee level in later sub-phases of the post-acquisition process; and
- Synergies in this M&A are yet to be fully realised.

This company has grown almost three times its size since the acquisition in 1995. It displayed the second lowest level of post-acquisition resistance and was the most successful M&A in this study.

## **10.2 COMPARISON OF CULTURAL DIMENSIONS**

This next section first discusses the differences of organisational culture (OC) followed by the national culture (NC) between the two firms and their general influences on the post-acquisition process. Mean scores were allocated to each dimension based on survey findings and interview data (Appendices 4 to 15). Each dimension is also analysed on how it influenced the post-acquisition process with supporting interview quotes. This case study will not analyse the NC differences because the German culture has already been discussed in Chapter 7.

### ***10.2.1 OC Dimensions***

There were some similarities and some distinct differences between First Automotive and German Antenna in terms of organisational culture. The differences can be traced back to the basic difference that one is a large multinational firm and the other is a small, entrepreneurial local firm. Table 10.2 displays the dimensions discussed in Chapter 3 and analyses the differences between the two firms according to the evidence from the survey (means) and interviewee data. Each dimension is then analysed on how it influenced the post-acquisition process from relevant interview quotes.

There were similarities in OC between the two firms in terms of communication style and structures. The communication style and structures in German Antenna were quite hierarchical and autocratic. In order to discuss issues with any of the managers, employees are required to make appointments weeks or days in advance. There was



a closed-door policy where relationships between management and employees were formal. This in a way assisted the transition of ownership at the subsidiary, as the communication styles were similar when dealing with issues: the top-down approach. Since the acquisition, the level of personal contact communication among employees within the firm continued to decrease due to the increasing size of the subsidiary. Communication is now more impersonal and indirect via e-mails and quite often decisions are cascaded down from the management to employees through this form of communication tool.

The differences in OC between the two firms were due to the size of the company and the fact that the acquired subsidiary was part of a different industry (telecommunications industry). According to one of the interviewees in this case study, culture differences between the two firms and countries slowed down the integration process:

*"It is fair to say that culture slowed the integration process. Communication side or understanding the nuances of people on how we worked in a certain way or a corporate way. You have to have culture in mind when thinking who should be involved in the integration team. You have to select a person who can deal with multiple-cultures. In this particular time frame, things are not smooth and you have to have individuals working in that area who can handle constant disruptions, things that do not happen the way you want, really key, need someone who is able to handle the unknown. So then add communication and culture thing to it, it adds to the complexity of the situation."*

M&A Team Member, First Automotive

One evident difference was that employees in the German subsidiary have a chance to contribute their ideas to the management through their very robust works council every four years. The works council in German Antenna is considered the most active group as compared to the other case studies in this research. They have a very strong influence on the decisions that can affect the employees' welfare. This was witnessed first-hand by the researcher when her field survey was refused permission for distribution at the site. As with earlier cases, these differences can be traced back to the basic difference that one is a large multinational firm and the other is a small, entrepreneurial local firm.



Table 10.2: OC influences on the post-acquisition process

Organisational culture dimensions	First Automotive	German Antenna	Evidence from interviews, questionnaire responses and observations	Problems caused during post-acquisition process
<b>Goal and value alignment</b> (Refer to Appendix 4 for mean score calculation  0 represents large MNE characteristics; 10 represents small entrepreneurial characteristics)	<i>Overall mean:</i>  4.00  Bureaucratic MNE  Short-term orientation	<i>Overall mean:</i>  4.80	<p>“I classify that in that the parent company was in a different industry hence the focus of the goals were different to the automotive. They had to change to the automotive period.” – M&amp;A team member, First Automotive</p> <p>“In the past our main goal was the customer. Everybody knew this. If the customer gave us a call, we work on the request immediately. Say if it was a customer from Korea and they needed support from our engineers. Within the next two days the arrangements would be made and the engineers were in Korea.” – HR Manager, German Antenna</p> <p>“I think the goals now are common processes above all.” – IT Supervisor, German Antenna</p>	<p>“Customer is still the main goal but we need to get approval now before flying to Korea and getting this approval will take weeks. So it is a slower response rate to customers now.” – HR Manager, German Antenna</p> <p>“For example, part of the internal control process is to question the people who took sick leave upon return to the job. The process expects us to track their answers to verify whether the sick leave and the reasons given were true. We cannot do that because the German works council will not allow this line of questioning to take place. The German work laws are just different from the American work laws and hence total implementation of this internal process is never possible.” - HR Manager, German Antenna</p>
<b>Structures and controls</b> (Refer to Appendix 5 for mean score calculation  0 represents unstructured, informal and few controls characteristics; 10	<i>Overall mean:</i>  9.17  Centralised decision making  Process-oriented  Strict controls over employees (e.g.	<i>Overall mean:</i>  6.43  Very structured and organised working habits  Completely different manufacturing	<p>“German Antenna was pretty much hierarchical all the way down product engineering and manufacturing engineering, and that much closely fitted with our structure.” – Director of International Business Unit, First Automotive</p> <p>“Germans are very organised, very structured in the way they conduct business.” - European HR director, First Automotive</p>	<p>“We are perfectionists. We want things to be perfect whenever a new procedure is introduced and hence tend to ask many questions prior to adopting the new procedure. Therefore, it takes a longer acceptance process. In America I suspect they role out the procedure then the understanding.” – Product-Line Architect, German Antenna</p> <p>“A lot of people (customers and employees) in</p>



represents highly structured, formal and controlled characteristics)	internet, personal telephone calls, etc.)	systems OC structures & controls were not explicit	<p>“Germans tend to be perfect and will ask a lot of questions when a new procedure is being introduced. They want to understand how things are before they implement it. I think the Americans implement the procedure then later try to understand it. I think this is the difference between Americans and Germans.” - Product-Line Architect, German Antenna</p> <p>“High structured people, they don’t take risks.” – Project Leader, French Security</p> <p>“We had a lean structure before, reporting to one boss. Now we have four bosses to report to.” – Finance Manager, German Antenna</p> <p>“There are more layers in a team or department as compared to before. More hierarchical now.” – Team leader of Engineering, German Antenna</p>	<p>the company have mentioned that we are loosing our flexibility with the increasing procedures and controls.” - HR Manager, German Antenna</p> <p>“It is very difficult to change and it takes a long time because we used a completely different manufacturing system with different part numbering for our products. Getting the systems combined is a difficult task.” - Product Competency Line Leader, German Antenna</p> <p>“We have a lot of reporting. Reporting, reporting and reporting. The essential works are ignored and the customer is waiting.” - Finance Team Leader, German Antenna</p> <p>“We have to write down everything we want to do and this takes a little bit too much time I think.” - Engineering Team Leader, German Antenna</p> <p>“The older employees both in age and service in the company had more difficulty accepting the new procedures and thinking of the First Automotive.” - Finance Manager, German Antenna</p>
<b>Leadership orientation</b>  (Refer to Appendix 6 for mean score calculation 0 represents abdicate	<i>Overall mean:</i> 4.78  Formal procedures for hiring, training and motivating employees	<i>Overall mean:</i> 6.79  Autocratic and hierarchical	<p>“In German Antenna, the managing director was a very Americanised person, so it was easier to understand each other and implement ideas.” – Finance Director, First Automotive</p> <p>“In old German Antenna, it was a typical pyramid structure with the managing director,</p>	<p>“German Antenna, was very similar to German Security, I think it is the German culture, very little communication beyond the managing director and his staff, did not penetrate deep into the organisation. That was difficult to achieve.” – Director of International Business Unit, First Automotive</p>



<p>leadership; 10 represents autocratic leadership)</p>			<p>the management staff then the employees. All managers had team assistants and the doors were closed. We had to ask the team assistants for dates to meet the manager. It was impossible to talk to the boss.” - HR Manager, German Antenna</p> <p>“Before management was very autocratic. There is more a team spirit atmosphere now.” - IT Supervisor, German Antenna</p> <p>“In the past there was a big frontal barrier between the management and employees.” - HR Manager, German Antenna</p> <p>“Our current managing director is approachable and not autocratic.” – Deputy IT manager , German Antenna</p>	<p>“It was difficult for the previous managing director to accept orders from First Automotive. He was losing power over his company and the decision-making process. Therefore he left two years ago.” – Finance Manager, German Antenna</p> <p>“Big change from the past. Before the boss was king, very difficult to have access. Now it is easier to approach our managers for discussions.” – Senior Engineer, German Antenna</p> <p>“It is easier for employees on the shop-floor to approach managers now. For example, if she wants to speak to the managing director and was waiting outside of his office, and I too was waiting outside his office, this shop-floor woman would go in first and speak to him as she was waiting before me. Before, this was not possible and I would have the priority as I was a manager.” – HR Manager, German Antenna</p> <p>“I know that we lost some of the key management folks because they had difficulty in their two-year contract; they had difficulty accepting our culture and us into their culture. Some of the key managers had work attitudes of independent entrepreneurs, while they remain in their key roles; they now had a new parent they had report to. Part of the acquisition deal is that they had to stay in the company for a period of</p>
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					time, but they left after that period of time.” – M&A team member, First Automotive
<b>Communication styles</b> (Refer to Appendix 7 for mean score calculation 0 represents informal and less structured style; 10 represents formal and high structured style(e))	<i>Overall mean:</i> 6.34 Top-down approach	<i>Overall mean:</i> 6.12 Autocratic & hierarchical	<p>“Germans are not as easy to approach as compared to the Americans. We are not as open.” - Finance Manager, German Antenna</p> <p>“I see no problem of writing an e-mail to my subordinates. I sometimes prefer sending e-mails informing them of a change rather than communicating directly to everybody because this takes more time and I am tied down with other work to do.” - Finance Manager, German Antenna</p> <p>“A lot of talking in this company now is via e-mails. It is a better way to do because you send it only once to everybody.” - Engineering Team Leader, German Antenna</p>	<p>“The number of reports is very high. For me it means additional paperwork to complete. I sometimes ask myself whether all these reporting were necessary. I take 3 to 4 hours to write each report, but I do not receive any form of feedback on my reports. It is frustrating because we do not hear feedback on the reports.” - HR Manager, German Antenna</p> <p>“Decision processes have slowed down over the years.” - HR Manager, German Antenna</p> <p>“Customers, especially the old customers, have recognised that we have become slower and we are not as responsive as before. On one hand they like that we have financial stability from the acquisition, but on the other they noticed we have limited behaviour in the market.” - Product-Line Architect, German Antenna</p>	<p>“Before the acquisition we had a very strong customer-oriented culture. Now reporting lines have grown, more steps in hierarchy who have to be convinced that the steps are the right things to do – normal of a global corporation. But our customer reaction times have gotten longer and longer.” - Product-Line Architect, German Antenna</p>
<b>Interpersonal relations</b> (Refer to Appendix 8 for mean score calculation 0 represent excellent interpersonal relations; 10 represent poor interpersonal relations)	<i>Overall mean:</i> 5.07 Formal Open-door policy Low context	<i>Overall mean:</i> 3.23 Very formal Closed-door policy High context	<p>“Before the M&amp;A, there was a stronger customer-orientation in this company. This means that there were direct responses to customer requests. There was direct commitment to the requests and more commercial awareness. This means that if there were new opportunities in the market we follow it immediately, and new funds were acquired relatively quickly. There was a more independent market review.” – Product-Line Architect, German Antenna</p>	<p>“Before the acquisition we had a very strong customer-oriented culture. Now reporting lines have grown, more steps in hierarchy who have to be convinced that the steps are the right things to do – normal of a global corporation. But our customer reaction times have gotten longer and longer.” - Product-Line Architect, German Antenna</p>	
<b>Motivation,</b>	<i>Overall mean:</i>	<i>Overall mean:</i>	“Training was not a big issue prior to M&A.	“It took at least two years to get people to accept	



<p><b>staffing, training</b></p> <p>(Refer to Appendix 9 for mean score calculation)</p> <p>10 represent high levels of de-motivation levels, poor staffing and little training)</p>	<p>4.62</p>	<p>4.23</p>	<p>Employees were personally responsible to improve their skills in their own time. There was no structured training programme designed as compared to now.” – HR Manager, German Antenna</p> <p>“Personnel moves and hiring process was different because we tried to do it cross-company, global type thing. And they of course were owned by a German company, so they did not get into global hiring like us.” – M&amp;A team member, First Automotive</p>	<p>English language training. People were afraid to speak English. For example, whenever the phone rang in the past, and the display shows it is a US call, employees used to go ‘arrggghhh....I don’t want to do this, it is so difficult’. It took a while to get people into speaking English daily.” – HR Manager, German Antenna</p> <p>“Training for new processes and procedures were weak before. But in the last two years, it has been improved and we are getting the necessary training when needed.” – PC&amp;L Manager, German Antenna</p>
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Source: Author, based on interviews conducted at German Antenna and First Automotive in 2002



### 10.3 POST-ACQUISITION MANAGEMENT OF GERMAN ANTENNA

This next section discusses in detail the post-acquisition management process that took place in German Antenna between 1995 and 2002, highlighting the post-acquisition changes and employee behaviour at the acquired subsidiary.

This M&A is classified as a domain extension (concentric) because First Automotive acquired a unique technology -- hidden antenna system – thus extending the product line of the MNE. According to Haspelagh and Jemison (1991), this type of M&A requires the adoption of a symbiosis strategy.

The post-acquisition approach undertaken in this case was slightly different to the earlier three acquisitions in Europe. Headquarters applied a more cautious approach in managing this post-acquisition process. There was no application of the ‘cowboy style’ as in the earlier cases where changes were implemented ‘blindly’ without considering the cultural consequences. There was a decision to communicate more clearly in advance the logical reasoning behind any upcoming post-acquisition changes in the company. This was done to prepare the mindset of acquired management and employees for expected change:

*“The company was smarter and was very careful in approaching the integration process, we didn’t go in like cowboys and say you do this and this and that. Instead, we asked them how they did things and explained to them this is what we like to do for the future. We did not ask them to take this and do it tomorrow as in German Security and French Security.”*

European HR Director, First Automotive

There were some similarities in the post-acquisition management of this M&A compared to the earlier three deals. That is, the initial two years after the M&A, autonomy was provided to the acquired management with little interference from headquarters. The reason as with the earlier three M&As, was to avoid the high risk of losing highly skilled personnel in the company.

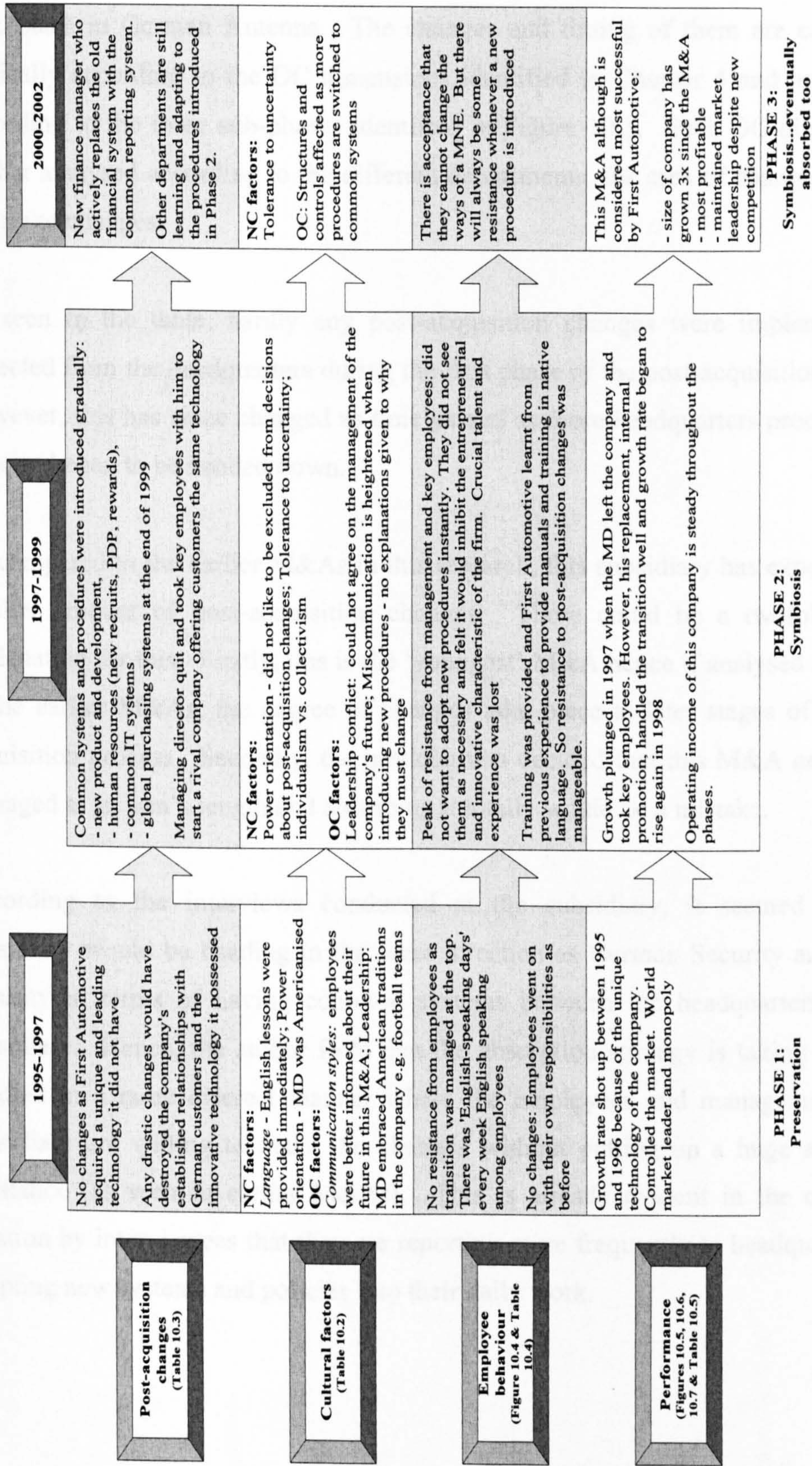
A summary of the post-acquisition management of this case is seen in Figure 10.3. This figure discusses the M&A under four sub-sections: 1) the timing and types of post-acquisition changes, 2) cultural influences, 3) employee behaviour in French



Security, and finally 4) the performance variances of the subsidiary since the M&A. Then, each sub-section is analysed according to the three phases of post-acquisition management that took place between 1993 and 2002: preservation, attempted absorption and preservation.



Figure 10.3: Post-acquisition management of German Antenna



Source: Author, based on interviews and field survey conducted in German Antenna and First Automotive in 2002



### *10.3.1 Post-acquisition changes*

The following table, Table 10.3, discusses the detailed post-acquisition changes that took place in German Antenna. The changes and timing of them are categorised vertically according to the OC dimensions identified in Chapter 4 and horizontally according to the three sub-phases identified in Figure 10.3. Each OC dimension is further analysed according to the different departments, the area of changes, and the timing of changes.

As seen in the table, hardly any post-acquisition changes were implemented or expected from the headquarters during the first phase of the post-acquisition process. However, this has since changed as time passed as more headquarters processes and policies began to be handed down.

As compared to the earlier M&As in this research, this subsidiary has experienced a smaller amount of post-acquisition changes. There could be a twofold logical explanation for this. Firstly, this is the ‘youngest’ M&A hence if analysed according to the earlier M&As, the degree of changes take place at later stages of the post-acquisition process. Secondly, the headquarters decided that this M&A needs to be managed at an arm’s length and absorbing it totally would be a mistake.

According to the interviews conducted at the subsidiary, it seemed that this subsidiary would be heading in the same direction as German Security and French Security in terms of having common systems between the headquarters and the subsidiary. Hence, the author feels that the absorption strategy is taking place but handled in a more discreet manner where the employees and management at the subsidiary are willing to make the changes without putting up a huge amount of resistance (as seen in earlier M&As). This is already evident in the occasional mention by interviewees that they are reporting more frequently to headquarters and adopting new systems and policies into their daily work.



Table 10.3: Post-acquisition changes in German Antenna

OC dimensions	Departments involved	Areas of changes	PHASE 1: <i>Preservation</i> ; 1995-1996 0-2 years	PHASE 2: <i>Symbiosis</i> ; 1997-1999 3-6 years	PHASE 3: <i>Symbiosis eventually absorbed</i> ; 2000-2002 6-8 years
Goal & value alignment	Overall	More financial less strategic primary orientation			✓
		Retention of decisions about company scope/direction		✓	✓
		Retention of decision about major contracts		✓	✓
		More short-term oriented			✓
		More levels of hierarchy		✓	✓
		More formalized planning			
Structures & controls	Overall	More centralised decision-making			✓
		More use of automation/IT			✓
		More use of parent financial control systems	Old finance manager did not follow First Automotive's systems		✓
		Capital expenditures requires final approval by parent company			✓
	Finance	More cost control systems			✓
		Retention of decisions of new products		✓	✓
	R&D	New product development procedures		✓	✓
		More implementation of TQM		✓	✓
	Purchasing	Less development on new products			✓
		New global purchasing procedures			✓
Communication styles	Overall	More top-down style			✓
		More formal meetings	✓	✓	✓
		More open form of communication	✓	✓	✓
		More explicit in terms of written documents such as procedures	✓	✓	✓



<b>Interpersonal relations</b>	Sales & Marketing	Less customer involvement				✓
		Less offering of unique products/services				✓
		Communication between parent & acquired subsidiary	FA learnt from previous M&A to have more open communication from day one			
<b>Motivation, staffing, training</b>	Human Resource	Implementation of group working/work teams	✓		✓	✓
		Less ad hoc career development	✓		✓	✓
		Increased formalised training	✓		✓	✓
<b>Leadership orientation</b>	Overall	More performance related rewards	✓		✓	✓
		More centralised strategic decision-making			✓	✓
		More than one manager to report to (matrix)			✓	✓
		Managing director appointed by parent company			✓	
		Finance manager appointed by parent company			✓	
	Finance	HRM manager appointed by parent company	No change. Original manager until today			
	HRM	Engineering manager appointed by parent company	No change. Original manager until today			
	R&D	Marketing manager appointed by parent company				
	Marketing	Purchasing manager appointed by parent company				
	Purchasing					

Source: Author, based on interviews conducted in Swedish Consultancy and First Automotive in 2002



### 10.3.2 Post-acquisition behaviour

The employee behaviour coincided with the level of post-acquisition change implemented within the subsidiary. This is seen in Figure 10.4. The levels of resistance differed in the three post-acquisition phases for this M&A.

As compared to the other M&A, First Automotive management mentioned that they faced a medium to low level of resistance from the employees and management in German Antenna. The score of  $R = 2.22$  indicates that as of 2002, there was still some form of resistance to the acquirer. This shape of the curve in Figure 10.4 provides a perception of how high resistance might have been in the earlier post-acquisition phases.

There was always a medium to low level of resistance in this subsidiary and this is supported by the following quote:

*"The integration of German Antenna into First Automotive was smoother because there was no insistence on the acquired subsidiary to make immediate changes. The integration was not as deep."*

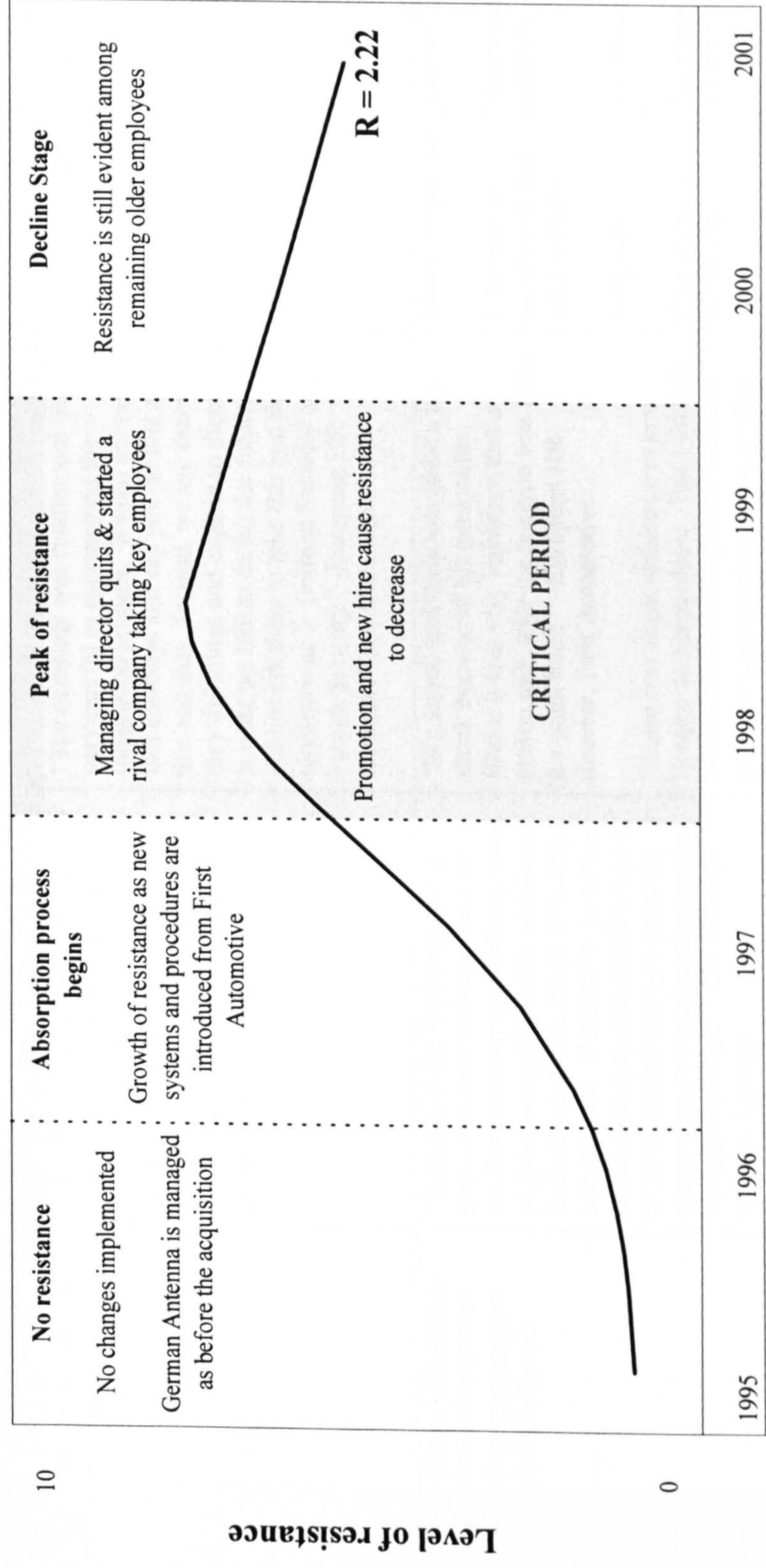
European HR Director, First Automotive

As with the other cases, the employee behaviour coincided with the amount of post-acquisition changes implemented into the subsidiary. The higher the extent of change, the more resistance was encountered in the subsidiary. The levels of resistance are classified according to the identified three post-acquisition sub-phases.

Relevant interview quotes on how OC influenced employee behaviour are seen in Table 10.4. This table displays how culture played its role in the adoption of the employee behaviour in this M&A according to the four identified post-acquisition phases and how headquarters managed the differences, resulting in either a positive or negative impact.



Figure 10.4: Differing levels of resistance during the post-acquisition process



Source: Author, based on NC and OC dimensions means scores, where R = 10 represents highest level of resistance and R = 0 represents lowest level of resistance (Refer to Figure 5.11 for resistance formula)



Table 10.4: Cultural influences on resistance

Year	Post-acquisition phase & resistance	Evidence from interviews	First Automotive management of phase	Cultural influences and interactions	
				NC	OC
1995-1997	<b>Preservation:</b> No post-acquisition changes	“The integration of German Antenna into First Automotive was smoother because there was no insistence on the acquired subsidiary to make immediate changes. The integration was not as deep.” European HR Director, First Automotive	“The company was smarter and was very careful in approaching the integration process. We did not go in like cowboys and say you do this and this and that. Instead, we ask them how they did things and explain to them this is what we like to do for the future. We did not ask them to take this and do it tomorrow as in German Security and French Security.” -European HR Director, First Automotive	Power orientation	Leadership
1997-1999	<b>Some Absorption:</b> Peak of resistance from management and employees	“It started in the third year, some guys came over and said, here we are, here are some procedures, some policies, some handbook, you have to do this and that, report all hiring activities etc. It started in an ad hoc manner, nobody could understand it, no help, no philosophy behind the changes, and no explanation on why we had to change.” - HR Manager, German Antenna  “He did not want to live under First Automotive procedures and policies because he said ‘I am a good managing director, I built this	“We feared that there would be a big shock because of his personality. Hence it was very important that a person took over the position was from the plant itself.” - European HR director, First Automotive  “There was slight resistance to new systems and procedures. But I think the top and middle management had less problem understanding and accepting the new culture as compared to the people on the shop-floor and other employees.” -Product Competency Manager, German Antenna	Power orientation  Tolerance to uncertainty and other cultures  Language  Masculinity vs. Femininity	Leadership  Structures and controls  Communication  Motivation/staffing/training



		company from scratch and has been successful ever since. Therefore, I do not understand why we must change things that have been working successfully. I do not want to negotiate with First Automotive for every single thing that I need to do for the company.’ Therefore, he left German Antenna and started a rival company. I strongly believed that it was the policies and procedures that drove him to that direction.” - HR Manager, German Antenna			
<b>2000-2002</b>	<b>Interdependence:</b> Some resistance	“It is not easy to change as nobody is convinced that the new procedures are the right thing to do.” - Product-Line Architect, German Antenna		Tolerance to uncertainty and other cultures	Structures and controls

Source: Author, based on interviews conducted at German Antenna and First Automotive in 2002



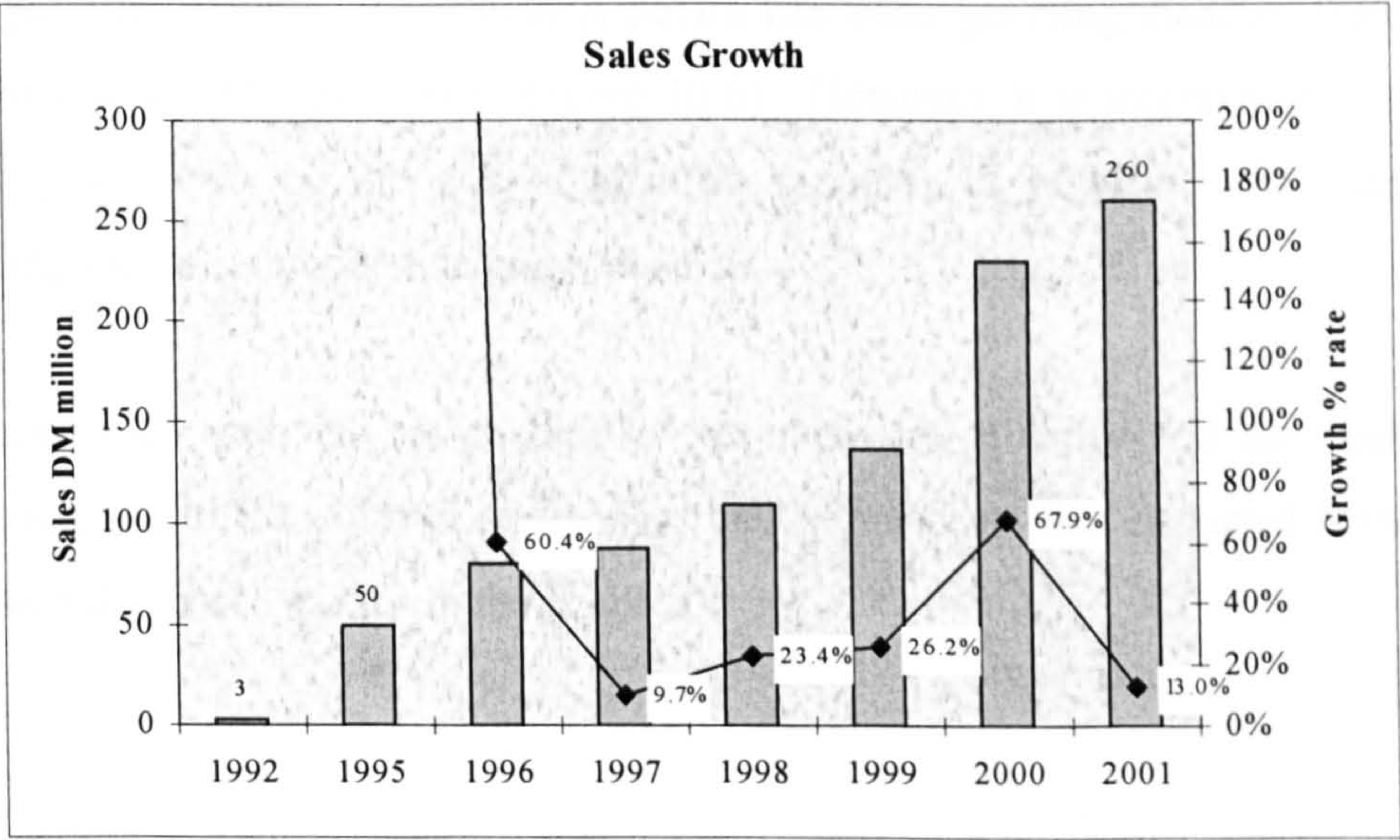
10.4 OVERALL PERFORMANCE OF M&A

This M&A is considered the most successful M&A undertaken by First Automotive. However, just like the other M&As in this study, the performance for German Antenna varied according to the post-acquisition change management process. This section looks at the performance figures of sales growth, operating income, employee growth and the performance on the manufacturing metrics over the past ten years of post-acquisition management.

10.4.1 Sales growth

The sales performance of German Antenna has increased by five-fold from 50 million euros to 250 million euros ever since the acquisition. The growth rate rocketed between 1995 and 1996 due to increased demand for hidden antenna systems. However, sales dropped strongly in 1996 from 60.4% to a low 9.7% in 1997 (Figure 10.5). This was due to two reasons.

Figure 10.5: Sales growth of German Antenna



Source: Based on company annual reports, 1995-2001

Firstly, the managing director resigned due to his intolerance of another firm’s culture and country culture. He took key personnel with him and left behind an atmosphere of uncertainty among the remaining management and employees in the subsidiary. Secondly, a direct competitor emerged in 1997, when the ex-managing



director set up a rival company with the exact same technology. His close relationships with some OEMs were critical as a number of customers 'went together' with the managing director. This period was considered critical by the acquirer with the creation of a direct competitor (which previously it did not have due to the uniqueness of the technology). In order to reduce the negative impact of the departure of the managing director, First Automotive decided that it needed a replacement with whom the employees were comfortable. Therefore, there was an internal promotion of the second-in-command of the firm. Sales began to pick up slowly.

These above sales performance figures show that the acquisition has been successful despite the hurdles the company encountered during the post acquisition process. The M&A is still achieving the minimum 10% annual growth rate that is required by all subsidiaries.

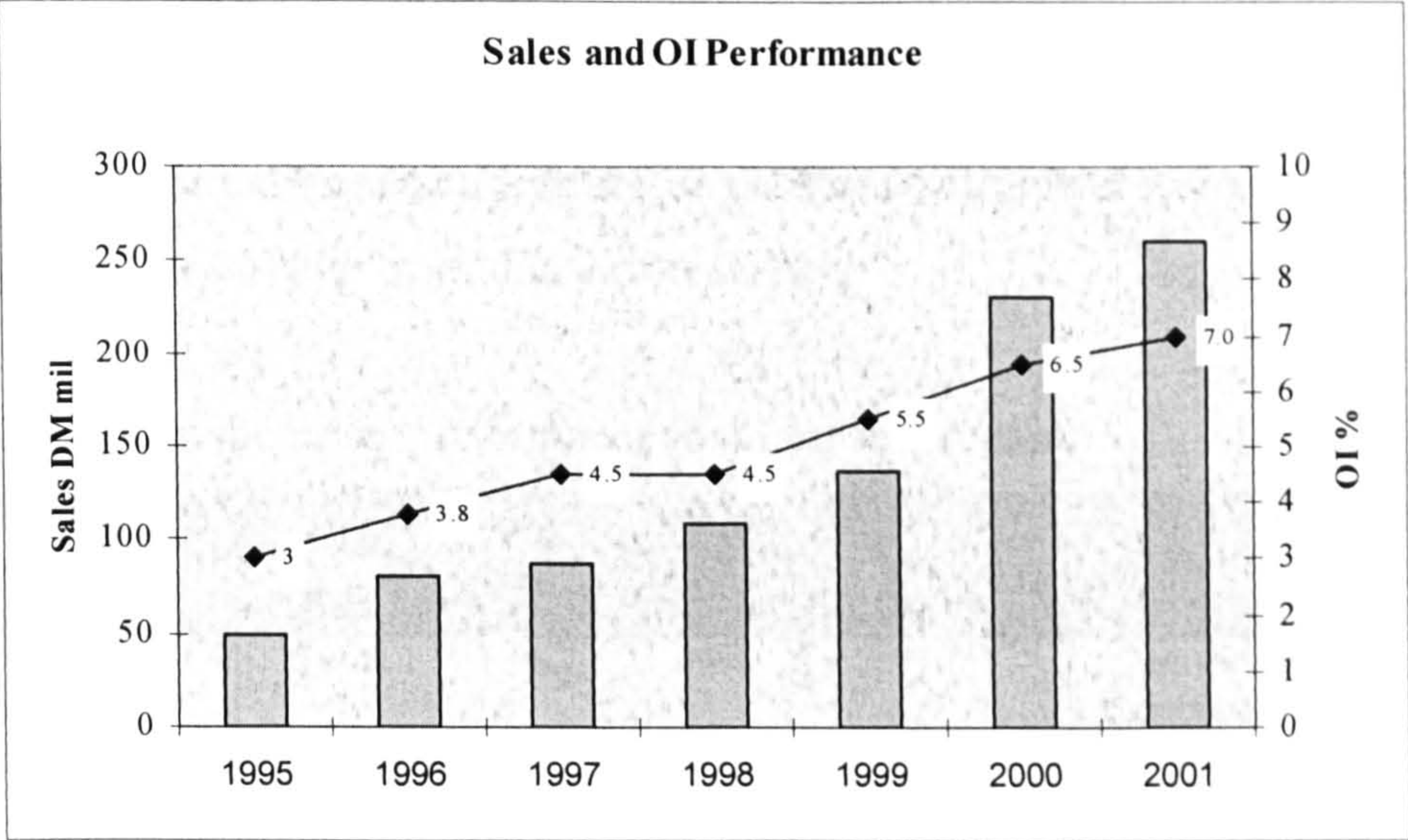
#### ***10.4.2 Operating profit growth***

The operating income of German Antenna has been growing steadily from 3% in 1995 to 7% in 2001 (as seen in Figure 10.6). However, it is interesting to note that during phase two of the post-acquisition process, in between 1997 and 1999, operating income remained stagnant at 4.5%.

This coincided with the resignation of the managing director and the peak of the resistance due to the cultural differences and interactions that occurred between the two firms discussed earlier in the chapter.



Figure 10.6: Operating income for German Antenna

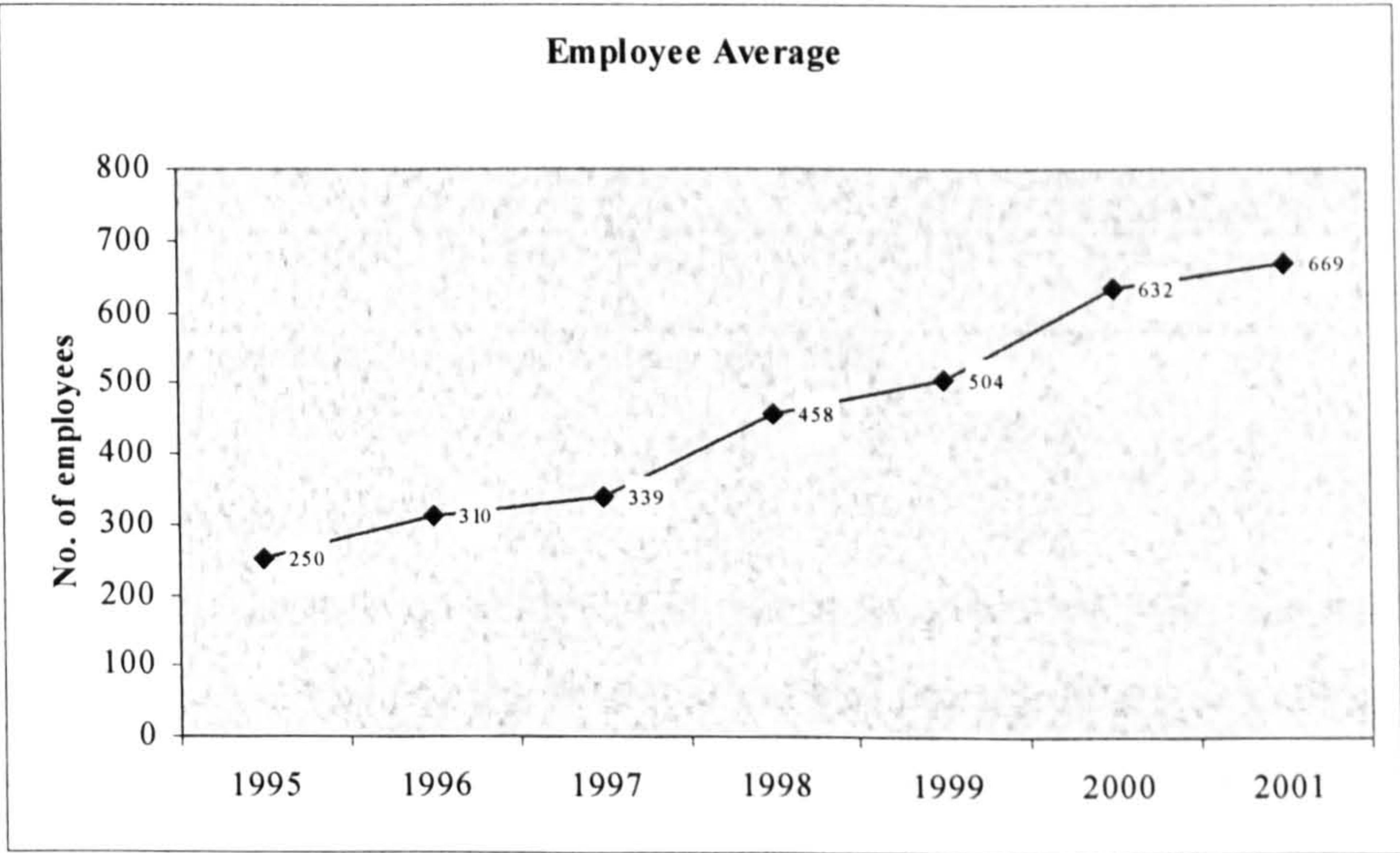


Source: Based on company annual reports, 1995-2001

10.4.3 Employee growth

This M&A has increased in size by over threefold since 1995. The increase in size was necessary to accommodate the increased sales demand through access to First Automotive network of customers (Figure 10.7).

Figure 10.7: Employee growth of German Antenna



Source: Based on company annual reports, 1995-2001



10.4.4 Manufacturing metrics performance

As seen in Table 10.5, German Antenna outperformed First Automotive in all except for the returned parts per million metric. This indicates that it is more successful than the headquarters in manufacturing its products with lower expenses, lower lost workday case, and higher operational availability.

Table 10.5: Manufacturing performance for German Antenna

Selected manufacturing metrics	Target	1999	2002	First Automotive 2002	Analysis of German Antenna
Ship window compliance (Appendix 16)	100%	96.7	99.4	97.0	Improved delivery and distribution  More efficient distribution system than headquarters
Operational availability (Appendix 17)	> 98%	86.5	88.5	72.2	Improved usage of operational resources but yet to achieve target level  More efficient operations than headquarters
First time quality (Appendix 18)	< 20,000	158,611	32,270	62,371	Improved quality levels but need further improvement  Higher first-time quality than headquarters
Manufacturing expense % of sales (Appendix 19)	< 20.5%	0.22	15.0	51.6	Reduced expenses  More cost-efficient than headquarters
Returned parts per million (Appendix 20)	< 20	137	56	7	Improved quality parts. Need further improvement  Less effective
Lost workday case (Appendix 21)	< 0.15	2.64	0.00	0.10	Best score

Source: Based on First Automotive annual analysis since 1999

10.4.5 Synergies achieved

The synergies that have been achieved or yet to be achieved from this M&A have been categorised into whether the headquarters and the subsidiary shared operational resources; and whether there has been a transfer of functional and management skills.



### **Sharing of operational resources**

- Sharing distribution channel: instantly captured for First Automotive through M&A; and
- According to the interview respondents from both companies, these synergies are yet to be fully captured and will take another couple of years or more to be fully operational.

### **Transfer of functional skills**

- Financial skills were not entirely transferred successfully until First Automotive hired a new finance manager in 2000;
- Purchasing skills: The global purchasing system was only implemented in 2000.
- HR skills: Such as motivational packages training and staffing have been implemented successfully in phase one of the M&A; and
- R&D skills: The new product development procedures were implemented at the end of phase two and are still in the process of being totally accepted by the employees at the subsidiary. There is still a resistance to this procedure because it slows the innovative culture considerably with increased paperwork for every step of the product development process.

### **Transfer of management skills**

- Easier transfer of management skills when the old MD was replaced in 1998; and
- Two-way learning process. US HQ staff have visited the local site to learn how they manage a highly successful manufacturing facility.

However, many interviewed felt that the integration process is still ongoing as they are still learning the headquarters' systems and procedures and slowly absorbing its processes.

## **10.5 CONCLUSIONS**

This chapter looked into detail at the case study of German Antenna, the fourth European M&A conducted by First Automotive. The chapter discussed a brief history of the company prior to the M&A and the motives of the M&A. Then the



chapter discussed the four post-acquisition phases of German Antenna. There was some form of an M&A team involved in the process for this case. However, there was no full-time integration team that was onsite at the subsidiary to assist in the post-acquisition changes.

The management style adopted by First Automotive in implementing changes was less top-down approach in this case study. The most obvious post-acquisition changes throughout the whole post-acquisition process were increased level of reporting procedures such as new product development procedures, increased paperwork and tighter controls. The changes took place in three phases and the influences of culture and level of resistance varied accordingly.

This quick success of this M&A can be attributed to the following reasons:

- There was a European headquarters by the time this M&A took place. Hence, there was a shorter communication link between the headquarters and the subsidiary. However, the management at the European headquarters were made up of Americans, hence the NC problems still existed as in the other M&As;
- There was a more cautious approach in managing this M&A. Early and clear messages were communicated to the subsidiary in preparation for any post-acquisition changes; and
- Management was more experienced in dealing with the German culture. They have applied some of what they learned from the German Security acquisition into this M&A.

#### ***10.5.1 Research questions answered***

This concluding section answers the research questions discussed in Chapter 4.



1-i) Which cultural dimensions influence the post-acquisition process?

Cultural dimensions	Phase 1	Phase 2	Phase 3
<b>National dimensions</b>			
Individualism vs. collectivism (-ve)		√	
Language (some +ve and -ve)	√	√	√
Time orientation (+ve)		√	
Tolerance to uncertainty and other cultures (-ve)	√	√	√
Power orientation (+ve)		√	
Masculinity vs. femininity (-ve)		√	
<b>Organisational dimensions</b>			
Goal and value alignment (+ve)		√	
Structures and controls (+ve)		√	
Leadership (+ve)		√	
Communication style (-ve)	√	√	√
Interpersonal relations (some +ve and -ve)	√	√	√
Motivation, staffing and training (-ve)		√	

2-ii) Do NC and OC interact during the post-acquisition process?

This case showed that there were interactions between NC and OC dimensions and these influenced the post-acquisition process and the behaviour of the employees in the firm (see table below).

The biggest influence of NC dimensions during the post-acquisition process in this case was rooted in the differences in language and tolerance to uncertainty and other cultures as it affected all three post-acquisition phases. These NC dimensions in turn interacted with the communication style and the handling of interpersonal relations between the firms.

Interactions between		Phase 1	Phase 2	Phase 3
NC	OC			
Individualism vs. collectivism	Leadership styles; Motivation, staffing and training		√	
Language	Communication style	√	√	√
Time orientation	Goal and value alignment		√	
Tolerance to uncertainty and other cultures	Interpersonal relations	√	√	√
Power orientation	Leadership style		√	
Femininity	Motivation, staffing and training		√	



**2a-i) How do differing NC and OC interactions influence the post-acquisition behaviour?**

There were substantial differences in this M&A, both in NC and OC. The major NC differences and influences on the post-acquisition process were language, power orientation and tolerance to uncertainty and other cultures.

The interactions of NC and OC were as follow: power orientation affected leadership styles; language differences affected communication styles; and tolerance to uncertainty and other cultures affected interpersonal relations between management and employees.

These resulted in a power struggle between the ex-managing director and headquarters, and some miscommunication between the companies. These contrasts of cultures heightened in phase two of the process, reflecting the peak of the resistance levels.

**2a-ii) How does the acquirer manage these interactions and resulting behaviour?**

The management was more cautious in managing this M&A as compared to the earlier three cases. They were more sensitive to the differences in cultures and took this into consideration when implementing post-acquisition changes in the subsidiary. As a result, this M&A displayed a medium to low level of resistance as compared to the others.

**2c-i) Are cultural differences related to the cross-border performance?**

This M&A was the most successful when the management were asked to evaluate the degree of success of all its four M&As. This indicates that if cultural differences are considered during the management of post-acquisition changes, the level of resistance from employees would be lower and this would in turn result in more successful post-acquisition performance.



**2c-ii) In what ways are cultural differences related to cross-border performance?**

When the two firms have to deal intensely with the NC and OC differences (i.e. working with each other more through implementation of new procedures from headquarters), the differences are highlighted even more. It is interesting to note that as with other M&As in this research, whenever resistance levels increased due to increased cultural interactions and influences, productivity in terms of sales growth and operating income tend to decrease. This shows that any encounters with cultural differences can affect the performance of the M&A.

The next chapter will synthesise the findings and analysis of Chapters 6 to 10.



## **PART 5:**

# **IMPLICATIONS OF RESEARCH**



## CHAPTER 11: SYNTHESIS OF FINDINGS

### *Chapter Objectives:*

- To synthesise the findings in relation to the research questions developed in Chapter 4
- To discuss the research findings in relation to the literature



## 11.0 INTRODUCTION

This chapter summarises the results discussed in chapters six to ten and draws references to the current literature in relation to the research questions of this study. The chapter is structured according to the theoretical framework developed by the researcher discussed in Chapter 4, Figure 4.1. Therefore, the chapter discusses how the differences and interactions of cultures between the acquirer and its acquired subsidiary influenced:

- The acquirer's *management technique* (types, timing and communication of post-acquisition changes); which in turn influenced
- The *acquired employees behaviour*; which in turn influenced the
- Post-acquisition *success* in the acquired firm.

In each section of the chapter, the relevant research questions are answered.

### 11.1 REVIEW OF THE THEORETICAL FRAMEWORK

In chapter four, the researcher associated the post-acquisition process to that of an international business negotiation-conflict process. The findings in this study seem to support this notion, that the post-acquisition process is one long negotiation process between two firms. As in a negotiation, both parties in the M&A need each other for the deal to succeed, as the deal is characterised by interlocking goals (Ritor, 1996).

However, as in any negotiation process, this study found that conflict between the firms arose during the post-acquisition process. It occurred when the acquirer implemented post-acquisition changes (Angwin, 1998). In the current study, the findings suggest that these conflicts were principally a result of the cultural differences between nations and firms involved in the M&A.



The following sections discuss the influences of culture on the post-acquisition process and how these have affected the management of the post-acquisition wheel of the theoretical framework.

## **11.2 THE ROLE OF CULTURE IN THE POST-ACQUISITION PROCESS**

### ***11.2.1 Cultural differences***

There were many contrasts of national and organisational cultures between the American MNE and its four European acquired subsidiaries. Differences in NC are first summarised, followed by the differences in OC.

The main similarities and differences in national cultures between the American acquirer and its four M&As have been summarised according to the four countries involved in this study: the US, Germany, Sweden and France (Table 11.1).

The findings from this study seem to suggest that the American and Swedish cultures were quite similar to each other in many respects. This similarity was found to have positive influences on the post-acquisition process, as it aided vital negotiations between the firms about post-acquisition changes and implementation. The Swedish culture's high tolerance for uncertainty and for other cultures also seem to have a positive influence on the process as they were 'open' to the differences in the American culture. These findings complement the cultural landmark studies, particularly Hall 196, Hofstede (1980), Trompenaars (1993), and GLOBE (2002).

The national cultures that seem to be very different from each other were between France and the US. Their attitudes to time, power orientation, masculinity, and individualism could be said to be on the opposite ends of the continuum. These had negative influences on the post-acquisition process and led to greater conflict. The similarity in the attitudes towards language and tolerance to uncertainty and other cultures, seem to work against each other as both cultures were 'stubborn' in speaking their own language and refusing to embrace cultural differences.



Table 11.1: Summary of similarities and differences in national cultures found in this research

NC Dimensions	US	Germany	Sweden	France
<b>Power orientation</b>	<ul style="list-style-type: none"><li>▪ There is some degree of power distance between top managers and lower levels of the hierarchy (but hidden)</li><li>▪ Some degree of teamwork</li><li>▪ First name basis</li></ul>	<ul style="list-style-type: none"><li>▪ Respect for authority</li><li>▪ Last name basis</li></ul>	<ul style="list-style-type: none"><li>▪ Highly teamwork oriented</li><li>▪ First name basis</li></ul>	<ul style="list-style-type: none"><li>▪ High respect for authority (GLOBE, 2002)</li><li>▪ Last name basis</li></ul>
<b>Individualism vs. collectivism</b>	<ul style="list-style-type: none"><li>▪ High individualistic</li><li>▪ Tend to think of themselves first before others</li><li>▪ Organisation is more impersonal (Trompenaars, 1993)</li></ul>	<ul style="list-style-type: none"><li>▪ Individualistic</li><li>▪ Task prevail over relationships (Trompenaars, 1992)</li></ul>	<ul style="list-style-type: none"><li>▪ Highly collective (GLOBE, 2002)</li><li>▪ Tend to think of others before themselves</li><li>▪ Organisation as ‘family’ (Trompenaars, 1993)</li><li>▪ Decision-making is slow in the acquired subsidiary as it values differences in opinions</li></ul>	<ul style="list-style-type: none"><li>▪ Collective</li><li>▪ High importance for family and friends connections</li><li>▪ Organisation as ‘family’ (Trompenaars, 1993)</li></ul>
<b>Masculinity vs. femininity</b>	<ul style="list-style-type: none"><li>▪ Masculine culture (Hofstede, 1980)</li><li>▪ Seek high earnings &amp; recognition</li><li>▪ Oversell yourself (exaggerated words used in conversations)</li></ul>	<ul style="list-style-type: none"><li>▪ Masculine culture (Hofstede, 1980)</li><li>▪ Earnings are not as important as job satisfaction</li><li>▪ Fewer female managers noticed in the acquired subsidiaries</li></ul>	<ul style="list-style-type: none"><li>▪ Feminine culture (Hofstede, 1980)</li><li>▪ High preference for excellent working conditions and atmosphere (GLOBE, 2002)</li><li>▪ Seek cooperation with managers</li></ul>	<ul style="list-style-type: none"><li>▪ Prefer good working relationships with managers</li></ul>



				<ul style="list-style-type: none"><li>▪ Undersell yourself</li><li>▪ Women in managerial positions in the acquired subsidiary</li></ul>	
<b>Time orientation</b>	<ul style="list-style-type: none"><li>▪ Sequential relationship (Trompenaars, 1993)</li><li>▪ Punctuality is important</li><li>▪ Short-term attitude</li><li>▪ Lunch is quick</li></ul>	<ul style="list-style-type: none"><li>▪ Sequential relationship (Trompenaars, 1993)</li><li>▪ Very punctual</li><li>▪ Very hurried atmosphere</li><li>▪ Eat and talk very fast.</li><li>▪ Lunch is taken in 10 minutes at desks</li></ul>	<ul style="list-style-type: none"><li>▪ Synchronic relationship (Trompenaars, 1993)</li><li>▪ Punctual</li><li>▪ Not as hurried as the Germans</li><li>▪ Lunch is taken in an hour</li><li>▪ Long-term attitude</li></ul>	<ul style="list-style-type: none"><li>▪ Synchronic. Time is enjoyed (Trompenaars, 1993)</li><li>▪ Not punctual for meetings because they greet people and chat to them on the way to the meeting room</li><li>▪ Lunch lasts between 2 and 3 hours everyday</li><li>▪ Long-term attitude</li></ul>	
<b>Tolerance for uncertainty and to other cultures</b>	<ul style="list-style-type: none"><li>▪ Change all the time, unafraid to take risks and of the unknown</li><li>▪ Expect the world to adapt to them</li><li>▪ Mentality: “we and the rest of the world”</li><li>▪ Willing to change jobs and move house easily</li></ul>	<ul style="list-style-type: none"><li>▪ Highly conservative and serious people</li><li>▪ Believe that their system is a winning formula, no need for changes</li><li>▪ Not willing to take risks and explore the unknown</li><li>▪ Hofstede, 1980; Trompenaars, 1993)</li><li>▪ Prefer to build a house and stay there till retirement</li><li>▪ Intolerant of deviant persons and ideas (Steenkamp, 2001)</li></ul>	<ul style="list-style-type: none"><li>▪ Conservative but like to explore the unknown</li><li>▪ Very tolerant, willing to learn about other cultures and languages</li><li>▪ Willing to move house when young for a job</li><li>▪ Tolerant of deviant persons and ideas (Steenkamp, 2001)</li></ul>	<ul style="list-style-type: none"><li>▪ Do not like to change</li><li>▪ Proud of their culture &amp; language</li><li>▪ Not willing to move away from their hometown or country</li><li>▪ Intolerant of deviant persons and ideas (Steenkamp, 2001)</li></ul>	



Language	Explicit (Hall, 1960)	Explicit (Hall, 1960)	Slightly implicit (Hall, 1960)	Implicit (Hall, 1960)
	<ul style="list-style-type: none"> <li>▪ Explicit (Hall, 1960)</li> <li>▪ Tend to ‘exaggerate’ with words</li> <li>▪ Expect everybody they conduct business with to communicate in English.</li> <li>▪ Little knowledge of other languages and not willing to learn</li> </ul>	<ul style="list-style-type: none"> <li>▪ Explicit (Hall, 1960)</li> <li>▪ Serious conversation, hardly show feelings and expressionless faces</li> <li>▪ English proficiency is better than in France</li> </ul>	<ul style="list-style-type: none"> <li>▪ Slightly implicit (Hall, 1960)</li> <li>▪ Shy, not outspoken and animated.</li> <li>▪ Do not expect people to learn Swedish. Many Swedes speak another language fluently</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implicit (Hall, 1960)</li> <li>▪ Very outspoken and animated conversations</li> <li>▪ Expect others to speak in French</li> <li>▪ Do not like speaking other languages, not willing to learn too</li> </ul>

Source: Author



In addition, the findings in this study suggested that persistent NC differences continued to inhibit the integration efforts of the acquirer (Very et al 1997; Gertsen et al 1998; and Child et al 2001). This suggests that national culture is more difficult to change, unlike OC, which is summarised next.

The main similarities and differences in organisational cultures between the American acquirer and its four M&As are summarised in Table 11.2. Overall, the characteristics of the American acquirer seem to reflect the more traditional management style identified by Sykes and Block (1989). The decision-making process is slow, the culture is obsessed with common systems and processes, and the communication style is formal and seems to reflect a 'parental approach'. This means that when any of its subsidiaries were not complying with its instructions, the acquirer tended to use 'punishments' (such as pay-cuts, or threat of dismissals) to get things done.

The acquired firms in this study were small entrepreneurial firms with fewer than 200 employees (at the time of the M&A deal). They were also relatively young (the oldest being less than 28 years since inception) compared to its acquirer (at least 100 years old), and could be described as technology-intensive firms. Even though two of the firms (Swedish Consultancy and German Antenna) were associated with other MNEs before the M&As, all of the acquirees still had almost non-existent contacts with organisations outside of their local country. These historical factors partly explain the differences in the organisational cultures between the acquirer and the acquired firms (Table 11.2).



Table 11.2: Summary of differences in organisational cultures in this research

OC dimensions	American parent characteristics: reflect traditional management style	Acquired subsidiaries characteristics reflect entrepreneurial management style			
		German Security	German Antenna	French Security	Swedish Consultancy
Goal & value alignment	<ul style="list-style-type: none"><li>▪ Administrative focus (Stevenson and Gumpert, 1985)</li><li>▪ Highly complex and formalised</li><li>▪ Bureaucratic spirit</li><li>▪ Formulated by a team of people</li><li>▪ Plan long-term but with emphasis on short-term achievements</li></ul>	<ul style="list-style-type: none"><li>▪ Entrepreneurial focus (Stevenson and Gumpert, 1985)</li><li>▪ Formulated by the founders of the firm (Schein, 1983)</li></ul>	<ul style="list-style-type: none"><li>▪ Entrepreneurial focus (Stevenson and Gumpert, 1985)</li><li>▪ Innovative spirit</li><li>▪ Not very structured &amp; detailed</li><li>▪ Formulated by the first managing director</li></ul>	<ul style="list-style-type: none"><li>▪ Entrepreneurial focus (Stevenson and Gumpert, 1985)</li><li>▪ Innovative spirit</li><li>▪ Formulated by the founder of the firm (Schein, 1983)</li></ul>	<ul style="list-style-type: none"><li>▪ Entrepreneurial focus (Stevenson and Gumpert, 1985)</li><li>▪ Innovative spirit</li><li>▪ Formulated by the founders of the firm (Schein, 1983)</li></ul>
Leadership style	<ul style="list-style-type: none"><li>▪ Highly authoritarian</li><li>▪ Works well when “parental authority” is respected &amp; ‘children’ behave accordingly</li><li>▪ The relationship between the employer and the employee is very distant</li><li>▪ Need for clearly defined authority and responsibility (Stevenson and</li></ul>	<ul style="list-style-type: none"><li>▪ Authoritarian</li><li>▪ But some degree of teamwork evident</li></ul>	<ul style="list-style-type: none"><li>▪ Leader is respected &amp; admired by all employees</li><li>▪ Some degree of participative leadership</li></ul>	<ul style="list-style-type: none"><li>▪ Leader is respected &amp; admired by all employees</li><li>▪ Authoritarian</li><li>▪ Leader knew the names of all employees</li></ul>	<ul style="list-style-type: none"><li>▪ Leader is respected &amp; admired by all employees</li><li>▪ No distance between employer and employee</li><li>▪ Participative &amp; charismatic</li></ul>



	Gumpert, 1985)				
<b>Structure &amp; controls</b> (Systems & procedures)	<ul style="list-style-type: none"> <li>Matrix structure: very complex due to size</li> <li>Enforce standard procedures to avoid mistakes (Sykes and Block, 1989)</li> <li>Control-oriented, inflexible to change without management approval</li> <li>Centralised decision-making at headquarters</li> <li>Procedures are complex and written down in detail</li> <li>Many systems and processes to follow</li> </ul>	<ul style="list-style-type: none"> <li>Hierarchical but with few layers</li> <li>Some procedures are written down but not detailed like the acquirer</li> </ul>	<ul style="list-style-type: none"> <li>Hierarchical but with few layers</li> <li>Some procedures are written down but not detailed like the acquirer</li> </ul>	<ul style="list-style-type: none"> <li>Hierarchical but with few layers</li> <li>Flexible to changes with or without management approval</li> <li>Not as many procedures to follow and usually not written down</li> </ul>	<ul style="list-style-type: none"> <li>Flat structure</li> <li>Freedom to conduct experiments or test new product ideas (Handy, 1989)</li> <li>Participative decision-making, hence slow</li> <li>Procedures are not written down</li> </ul>
<b>Interpersonal relations</b> (Group dynamic with the “child”)	<ul style="list-style-type: none"> <li>Differs according to the departments in the entire firm</li> <li>Punishments issued by ‘parent’ for misbehaviour:</li> <li>Customer relationships are not as close</li> <li>Slower response time</li> </ul>	<ul style="list-style-type: none"> <li>“Family-atmosphere”, everybody knew what the other was doing</li> <li>Establish close customer relationships – quick response time etc.</li> </ul>	<ul style="list-style-type: none"> <li>Establish close customer relationships</li> <li>Quick response time to market changes</li> </ul>	<ul style="list-style-type: none"> <li>Establish close customer relationships</li> <li>Quick response time to market changes</li> </ul>	<ul style="list-style-type: none"> <li>Members can argue but still ‘love each other’ and cannot lose membership</li> <li>Establish close customer relationships</li> <li>Quick response time to market changes</li> </ul>



<b>Communication styles</b>	<ul style="list-style-type: none"> <li>▪ Strict “parental” style – top down approach</li> <li>▪ Indirect communication through e-mail is common</li> <li>▪ First name basis throughout the company</li> </ul>	<ul style="list-style-type: none"> <li>▪ Managers have direct communication with employees through meetings</li> <li>▪ Formality in communication style between managers and employees</li> <li>▪ Last name basis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Managers have direct communication with employees through meetings</li> <li>▪ Formality in communication style between managers and employees</li> <li>▪ Last name basis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Managers have direct communication with employees through meetings</li> <li>▪ Formality in communication style between managers and employees</li> <li>▪ Last name basis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Direct and open communication</li> <li>▪ Challenge to hierarchy (Stevenson and Gumpert, 1985)</li> <li>▪ “Sibling” style – conflict is valued</li> <li>▪ First name basis throughout the company</li> </ul>
<b>Motivation, training &amp; staffing</b>	<ul style="list-style-type: none"> <li>▪ In-house training provided</li> <li>▪ Sponsorships are available for post-graduate education to top performers</li> <li>▪ Power, status and financial rewards</li> <li>▪ Promote compatible individuals</li> </ul>	<ul style="list-style-type: none"> <li>▪ In-house training is not common</li> <li>▪ Employees had to look for training outside of the company personally</li> <li>▪ Promotion was based on compatibility</li> </ul>	<ul style="list-style-type: none"> <li>▪ In-house training is not common</li> <li>▪ Employees had to look for training outside of the company personally</li> <li>▪ Promotion was based on compatibility</li> </ul>	<ul style="list-style-type: none"> <li>▪ In-house training is not common</li> <li>▪ Promotion was given to family members of the management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Motivation is conducted through excellent office conditions, good interpersonal relationships with managers and fellow colleagues</li> <li>▪ Some in-house training</li> </ul>

Source: Author



Although the OCs seemed to reflect more entrepreneurial management styles, each subsidiary presented its own unique characteristics when compared to the other. This could be probably due to their different NC background. For example, the leadership styles in French and German firms were more authoritarian as compared to the teamwork style in Sweden. This dimension seems to be inter-related with the differing degrees of power orientation (NC dimension). This more authoritarian leadership in the French and German subsidiaries had a positive influence on the post-acquisition process as the leadership style in the acquirer reflected a top-down approach.

However, it was only a positive influence at the lower levels of the hierarchy, where the employees did not really 'question' seniority or authority, especially in France. However, there were negative influences on the management level, as the acquired managements were not used to receiving instructions on what they could or could not do with 'their' firms.

When comparing all the M&As in this study, the commonality between them is the strong entrepreneurial organisational cultures in each firm, and the differences in their national cultures. Analysed from this angle, evidence shows that the larger the differences between the national cultures (between the acquirer and the acquired subsidiary), the slower it was to implement changes successfully (e.g. France and the US).

Evidence in this study suggested that there is a positive relationship between OC differences and an increase in post-acquisition problems. This is complementary and supportive of the current literature (Cartwright and Cooper 1993; Larsson 1993; and Weber 1994).

### ***11.2.2 Cultural influences***

The patterns of cultural influences were found to vary considerably and according to the post-acquisition phases. However, the same pattern emerged in all four M&A cases, that is, there was a strong influence of the NC dimension of language as it



appeared in all the post-acquisition phases. This suggests that this dimension was most influential in the post-acquisition process. Indications are that varying degrees of miscommunication continue to occur between the acquirer and its acquired firms today, especially during conferences via the telephone and in face-to-face meetings. This suggests that although a new communication system can be implemented in the acquired firm to suit the acquirer, the underlying national culture of language is more difficult to change and manage (Hall, 1960; Hofstede, 1980; and Trompenaars, 1993).

Importantly, it was found that there was considerable diversity in the degree of cultural influences in the mid-phase of the post-acquisition process. This means when the acquirer and the acquired firm began to develop greater contact, the issues of cultural differences were magnified and caused more conflicts. Even though the evidence suggests that all the twelve dimensions had an impact on the process, the degree of impact for each varied. The variations were a result of:

1. *How wide were the cultural differences between the acquirer's and acquired firm's NC and OC?* The wider the differences, the more apparent they became during the mid-phase of the process, and more conflicts occurred between the firms.
2. *How well prepared the acquirer was to deal with the cultural manifestations in the acquired firm?* The more ill-prepared the acquirer was to deal with the fact that there was another culture and imposed its own culture on the acquired firm, the more difficult it was to handle the conflicts that arose. In its first three M&As, the acquirer did not recognise that the cultural differences between the countries and the firms would affect the post-acquisition process and was not prepared for the impact of them as a result. The typical way adopted was to 'force' the American way of doing business and its systems and processes onto the acquired firms. This led to huge barriers of resistance from the acquired managements and took the acquirer a longer time to 'breakdown' the barriers created.



### ***11.2.3 Cultural interactions between NC and OC***

The data suggests that there were interactions between NC and OC in the post-acquisition process. However, it seemed that not all the NC dimensions interacted with all the OC dimensions as the researcher had assumed in the development of the framework.

Some NC dimensions seemed to have stronger interaction links with some OC dimensions than others in the post-acquisition process. These are seen in Figures 11.1 to 11.6. These figures illustrate the relevant cultural interactions found in this research, based on the mean scores calculated for the NC and OC dimensions of each country and company involved (seen in Appendices 4 to 15).

The interpretation of the following figures on whether there is any interaction and the strength of the interaction is based on the following assumptions:

- There is a very strong interaction link between NC and OC when the NC and OC dimension overlaps each other on the axis. Therefore, the nearer the points of the different dimensions, the stronger the interaction between the different dimensions. For example in French Security, the findings suggest that the French have a very high power orientation culture and this is reflected in the high authoritarian leadership style in Figure 11.1.
- Even if dimensions do not overlap, there is also an indication of interaction when the shape of an NC dimension is similar to the OC dimension in the same chart, as the distance between the dimensions is equal.

Examination of the interactions between NC and OC during the post-acquisition process suggested the following conclusions:

- *Power orientation* of a country interacted with leadership style and communication style adopted in the firm (Figure 11.1). The higher the power orientation, the more autocratic would be the leadership style and the more

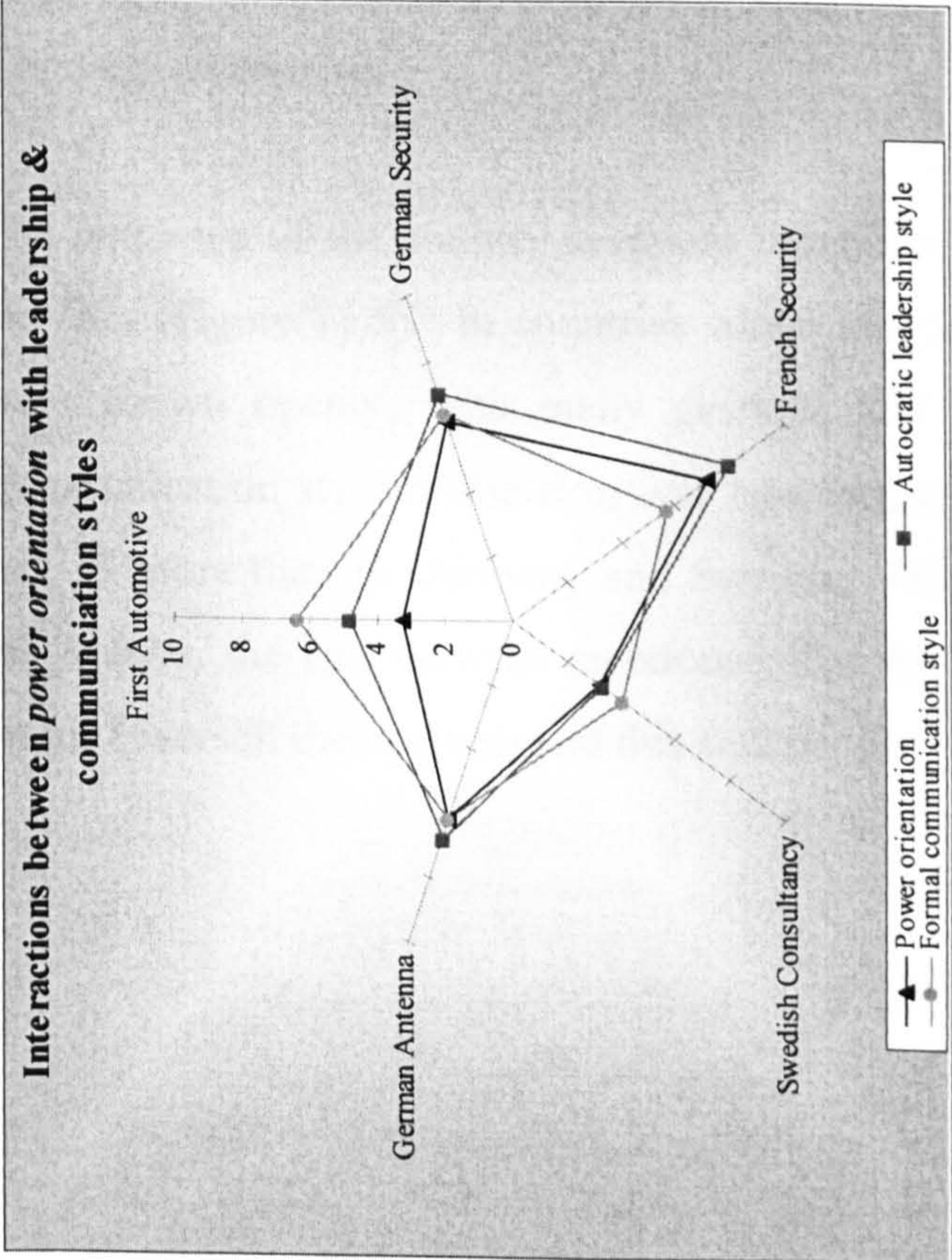


formal would be the communication style adopted in the firm. This was evident in the German and French M&As. However, in the US, the low power orientation did not reflect an informal communication style or less authoritarian leadership style. One reason for this could be that its OC reflected characteristics of a large traditional firm.

- *Individualism dimension* seems to interact with the type of motivation, training or staffing that is ideal in the firm (Figure 11.2). When the country is individualistic, the motivation of the company would be designed to reward personal achievements rather than group achievements. When this NC dimension varied greatly between the acquirer and the acquired firm, it also showed that the motivation levels of the acquired firm tended to be much lower, as in French Security, because of the new system of rewarding individualism. The French, before the M&A, were used to promotion based upon family connections.

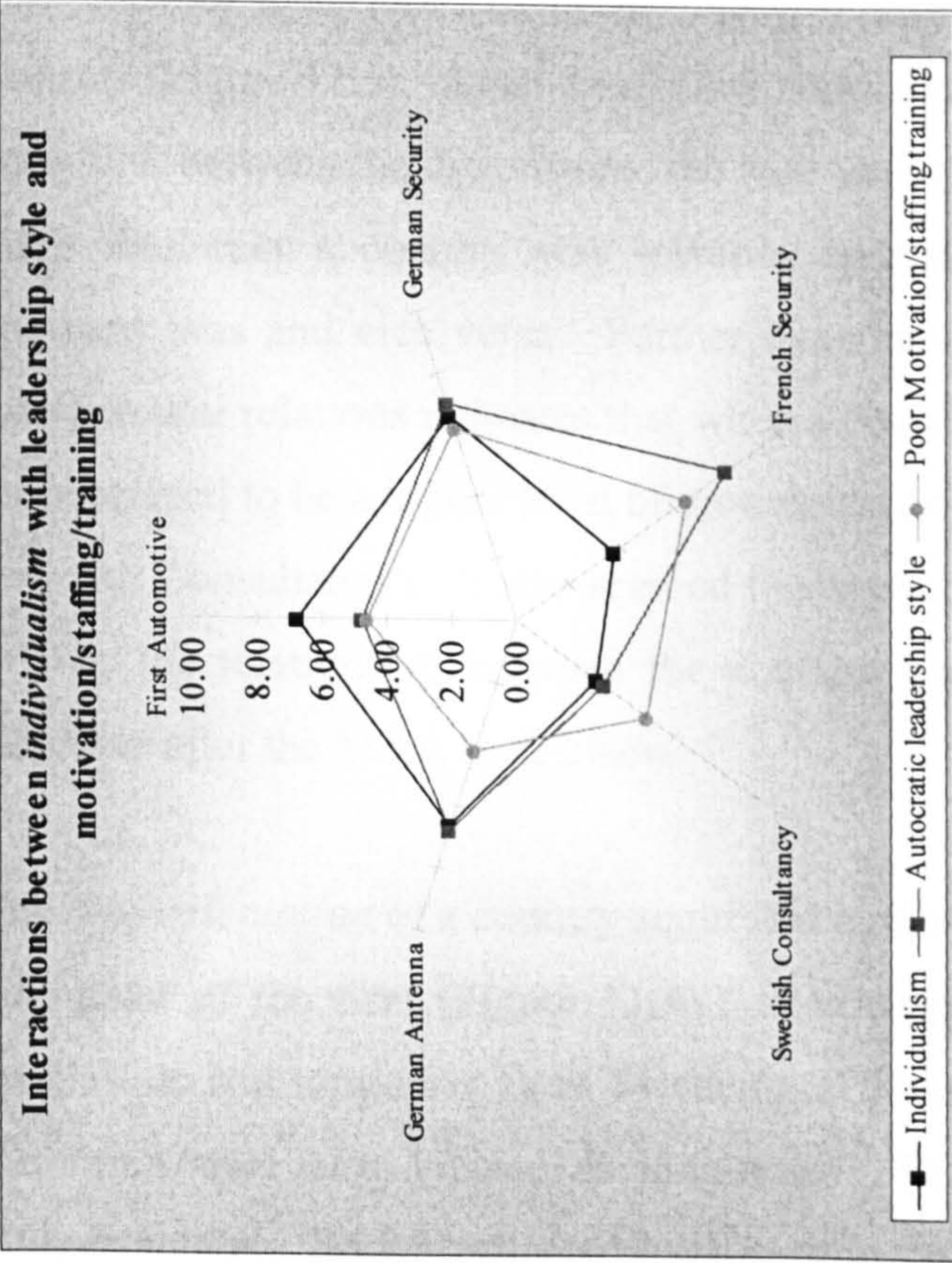


Figure 11.1: Power orientation interactions with OC



Source: Author

Figure 11.2: Individualism interactions with OC



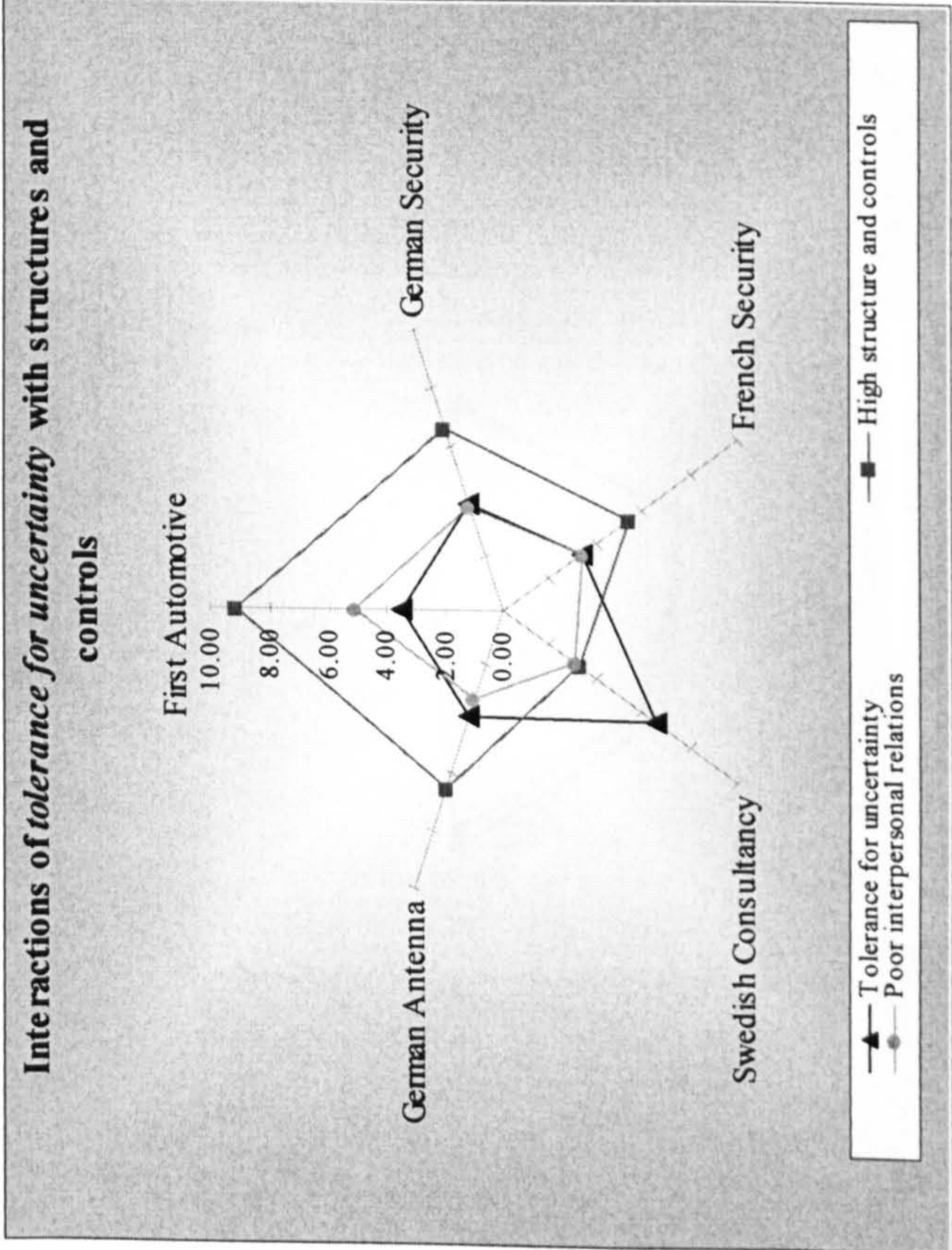
Source: Author



- *Tolerance for uncertainty and other cultures* seem to interact with structures and controls (Figure 11.3). Apart from First Automotive, where there seemed to be a weak link between the dimensions, the M&As displayed a rather strong link. The more intolerant a country was towards uncertainty, the more structured the company was and vice versa. Further examination of this NC dimension with interpersonal relations indicates that when a country is sensitive to other cultures, there seemed to be a higher level of motivation or job satisfaction in the firm (e.g. Swedish Consultancy). It also seemed to suggest that this could be the reason as to why the relationship between the acquirer and the acquired firm was more amicable after the M&A took place.
  
- The *time orientation* of a country suggested a relationship with the goal and value alignment of the firm (Figure 11.4). In countries where time was viewed as synchronic and long-term as in Sweden and France, the goals and the values of the firms were also viewed as long-term. This clashed with the acquirer's attitude to time, which reflected a short-term oriented culture. In France, this interaction of the NC and OC dimension has persisted until today. The acquirer has mentioned that getting things done in France requires a longer period than in Germany or Sweden.
  
- The *language* of the country seems to interact with the communication style of the firm (Figure 11.5). In countries where language was animated, and feelings were shown openly, with many gestures and strong facial expressions, the communication style of the firm was less formal. This was seen in France and the US more than in Germany and Sweden. However, in all three countries of the M&As, the interviewees mentioned that the US tended to exaggerate their words (oversell themselves) and this was not easy for them to understand.

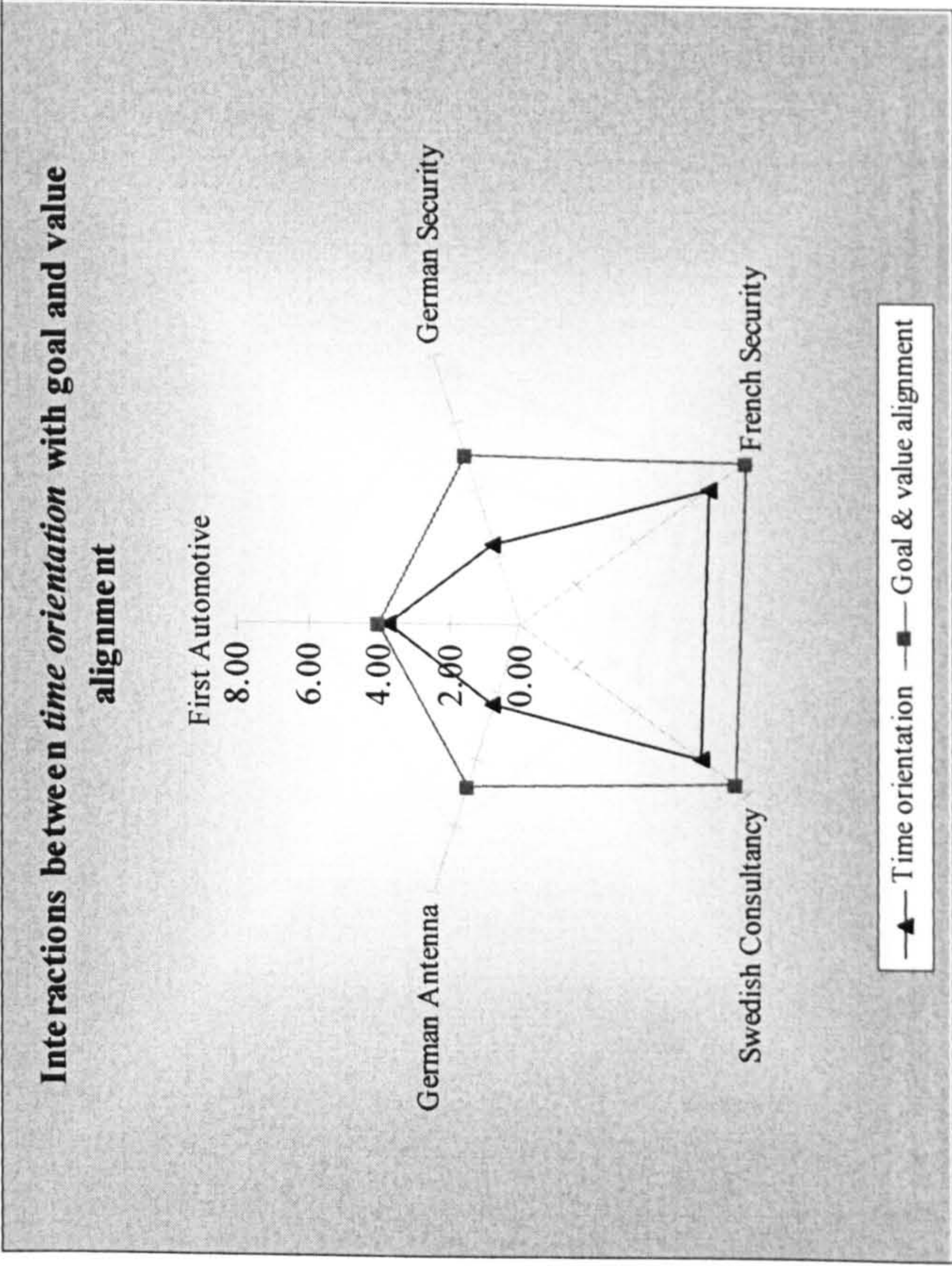


Figure 11.3: Tolerance for uncertainty interactions with OC



Source: Author

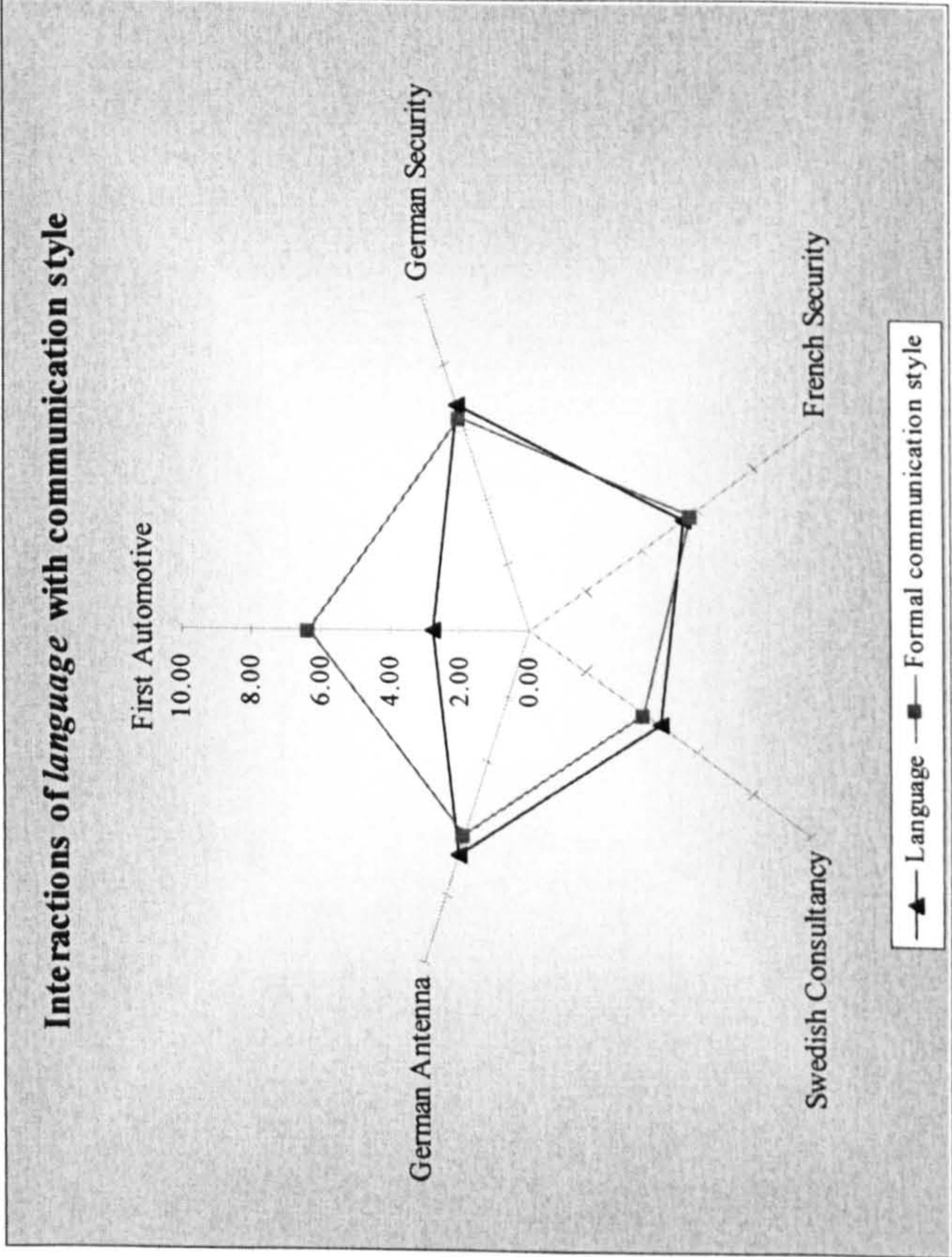
Figure 11.4: Time orientation interactions with OC



Source: Author

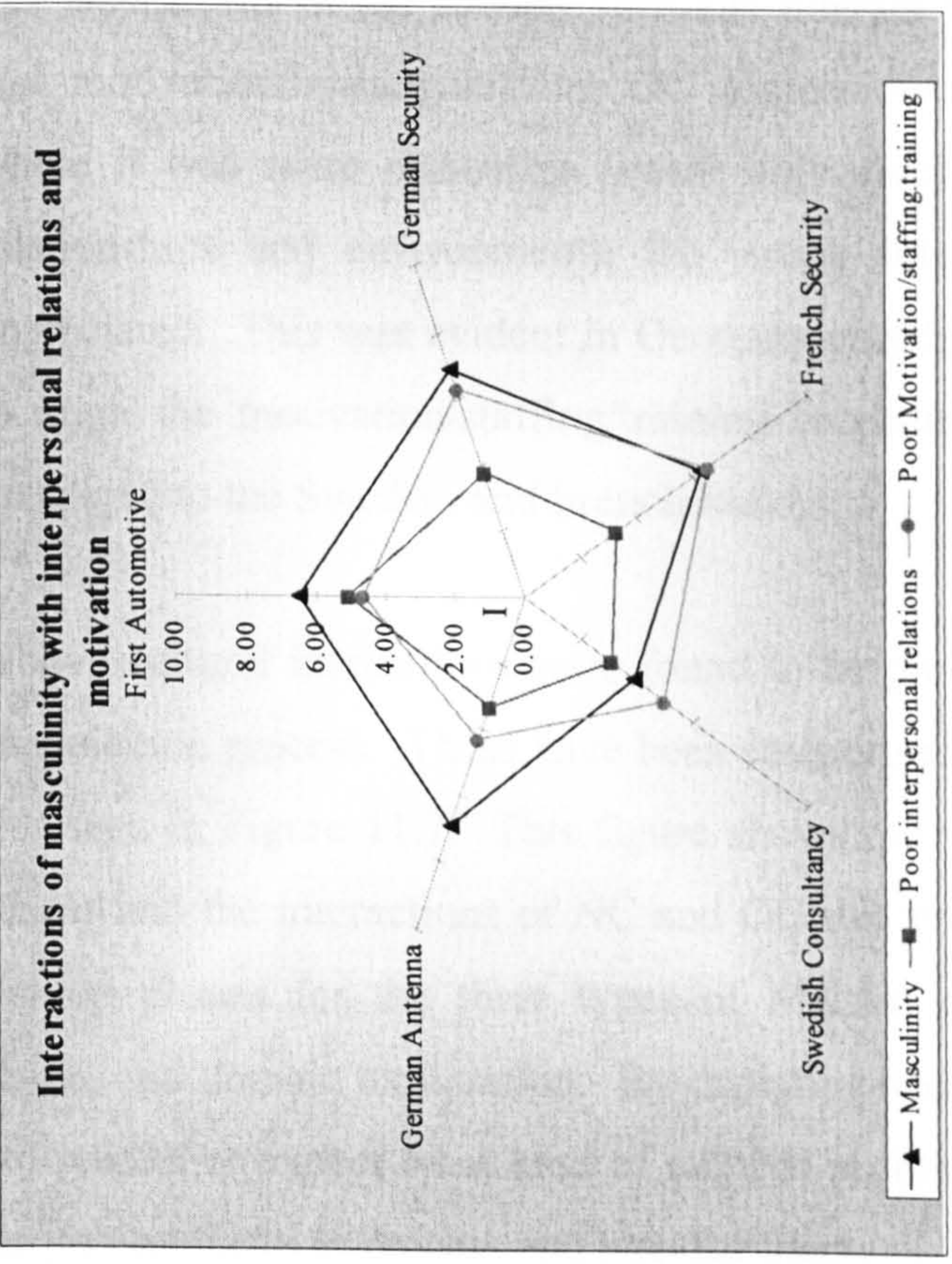


Figure 11.5: Language interactions with OC



Source: Author

Figure 11.6: Masculinity interactions with OC



Source: Author

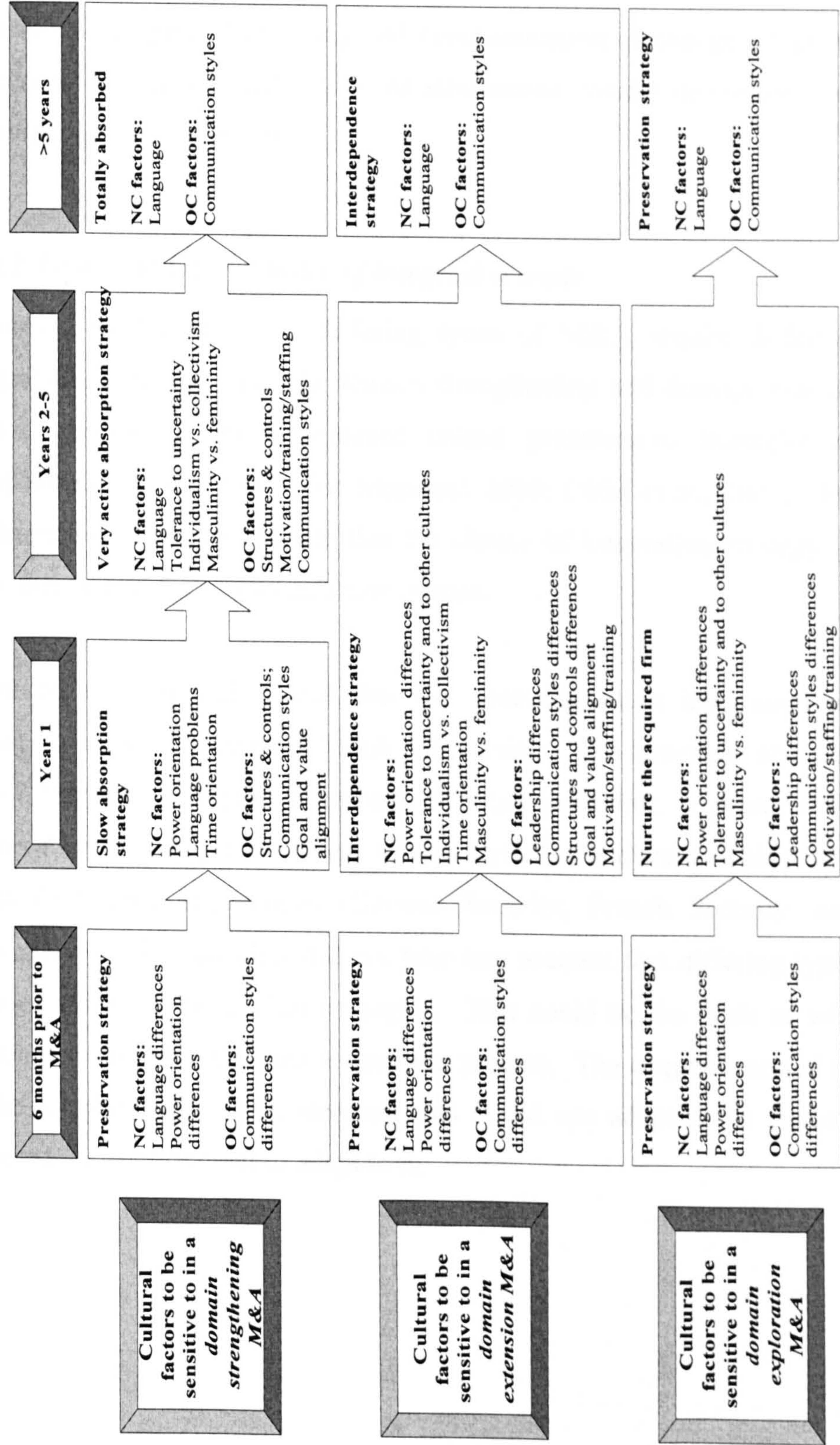


- The *masculinity* of the country seems to interact with the interpersonal relations and motivation/training/staffing OC dimensions (Figure 11.6). In countries where it was more masculine (value high earnings more than good working relationships and environment), the strong interpersonal relations were less appreciated. This was evident in Germany and the US. Therefore, it was easier to align the motivation/staffing/training procedures in the German M&As as compared to the Swedish and French M&As.

The above cultural interactions were found to be present at different timings of the post-acquisition process. These have been categorised according to the phases of the process seen in Figure 11.7. This figure shows the various possibilities of cultural influences and the interactions of NC and OC that could take place at various post-acquisition phases for the three types of M&As: domain strengthening, domain extension, and domain exploration. By depicting such a figure, a manager might be able to predict or expect what kind of cultural problems could arise from the cross-border post-acquisition process and plan for them.



Figure 11.7: Cultural factors the acquirer must be aware of in each post-acquisition phase



Source: Author



### 11.3 THE POST-ACQUISITION MANAGEMENT WHEEL

According to the researcher's theoretical framework (Figure 11.8), the variables in the post-acquisition wheel had a domino effect on the next variable. The type of M&A determines the type of integration mode chosen and the extent of post-acquisition changes. The timing and communication of changes, together with the influences of cultural differences or similarities, would determine the employee behaviour in the acquired firm.

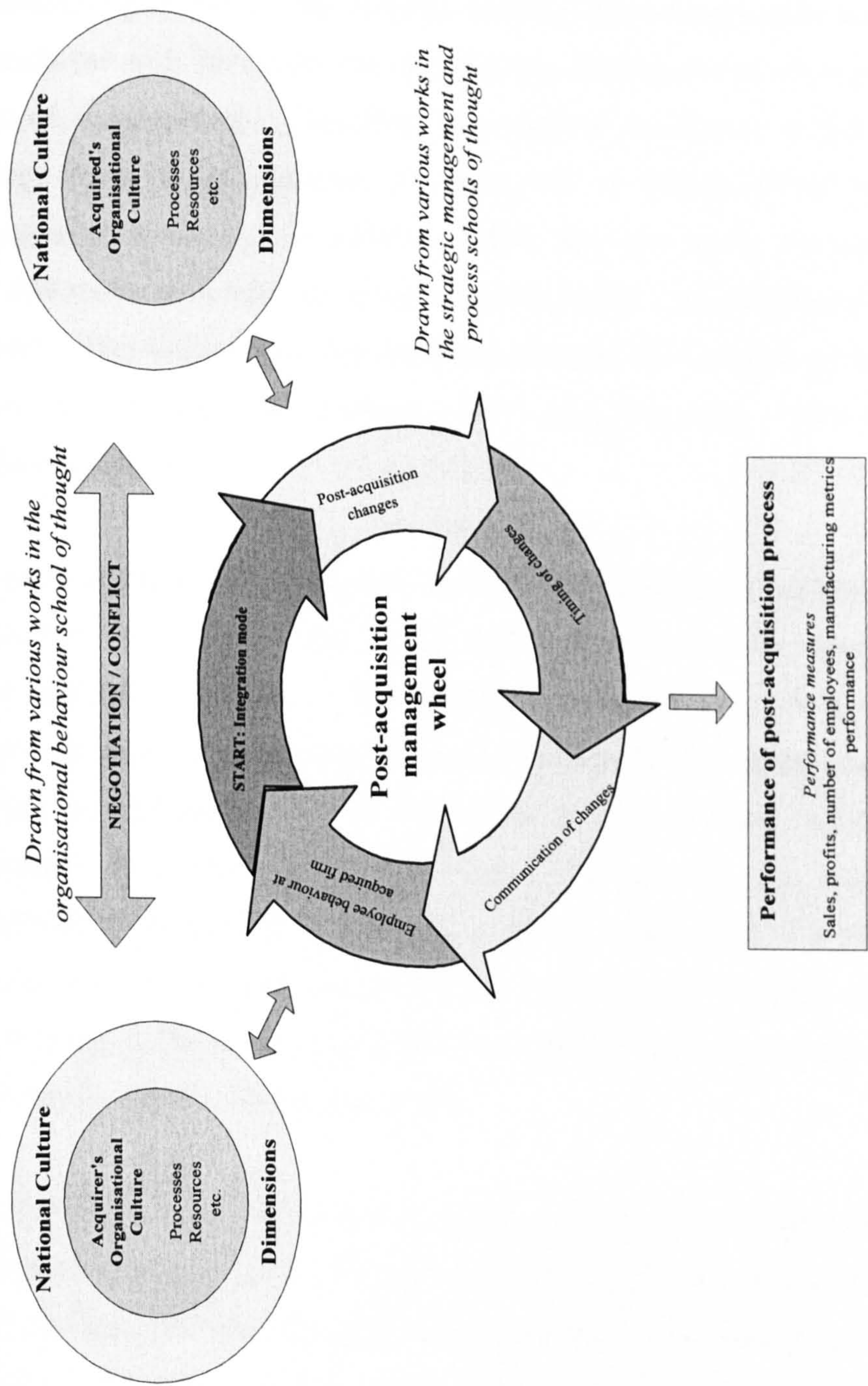
#### *11.3.1 Type of M&A → Choice of integration mode*

According to the literature, differing types of M&A require differing types of integration strategies. That is domain strengthening and domain extension M&As require absorption, interdependence or/and preservation strategies respectively (Haspeslagh and Jemison, 1991; Morosini, 1998; Child et al., 2001). Furthermore, the literature seems to indicate that the choice of integration strategy remains the same throughout the post-acquisition process.

However, this research found that the post-acquisition integration strategy (or management) for each type of M&A did not vary. The American acquirer tended to follow the same integration pattern of implementation: *a preservation strategy followed by an absorption strategy* in its acquired subsidiaries. This pattern emerged in its first three acquisitions (German Security, French Security, and Swedish Consultancy). The acquirer did not take into account that differing types of M&A required differing integration strategies. This could be the basis of why so many problems emerged in the post-acquisition process. The acquirer termed this strategy as the 'cowboy approach', meaning that it did not adapt to its environment and expected the environment to adapt to it.



Figure 11.8: Review of the theoretical framework: the post-acquisition management wheel



Source: Author



Eventually, as the acquirer learnt from experience on managing the post-acquisition process, it realised that having a common approach for all types of M&As was not a very successful method. This was apparent especially in the management of its third acquisition, Swedish Consultancy. Being a domain extension M&A (with no manufacturing facilities), the acquirer realised that attempting to absorb it under its umbrella (as with the earlier two M&As) was causing too much opposition from the acquired management. Therefore, the acquirer decided to switch the integration strategy back to preservation as there was a serious threat of the acquired management resigning. In addition, unlike the other cases, the acquirer could not risk this move as it was not knowledgeable about the consultancy business of the industry. This finding does not really complement the literature on domain extension M&As (Haspeslagh and Jemison, 1991; and Morosini, 1998) that requires a symbiosis strategy.

The other evidence of the acquirer learning from experience occurred with its fourth M&A, German Antenna. Here, it adopted an interdependence strategy instead of its usual absorption strategy. This finding complements the literature, in which a domain extension strategy requires a symbiosis (interdependent) integration strategy (Haspeslagh and Jemison, 1991). Furthermore, there was also more sensitivity to the differences in cultures in this last case. The acquirer was more cautious and democratic in implementing changes. The relationship between the acquirer and German Antenna resembles a partnership (not of equals though), where the priority was to transfer the unique skills and cost savings through common purchasing and distribution networks (Morosini, 1998).

Another factor that contributed to higher success in German Antenna could be attributed to the fact that by the time this M&A took place, the acquirer had set up a European headquarters office (EHQ) in Germany. The setting up of the EHQ was part of its 'European Vision' plan, a natural evolution of the company's expansion plans into Europe (as discussed in Chapter 6). American personnel were sent as expatriates to run the office and consequently had first-hand experience of dealing with the German culture and perhaps European cultures as a whole. This made them



realise that things were done differently in Europe and they began to adapt slowly. Eventually, the American expatriates were replaced with European hire and this too probably contributed to the more successful management of the fourth M&A.

Therefore, the data suggests that the acquirer went through a learning process, and it made the necessary adjustments in the integration strategies to accommodate the different types of M&A. This seems to indicate that the learning capability of the MNE has expanded as time passed. The top management at the headquarters was not 'frozen into fixed patterns of thought that limit progress', displaying some injection of corporate entrepreneurial influence (Stopford and Baden-Fuller, 1994).

The findings of three types of integration strategies are seen in Table 11.3. There were some similarities with these findings to those of Morosini's study (1998). The additional data to add to this study concerns the degree of cultural clashes, which differed according to the type of M&A. In M&As where there was a high level of interaction between the employees of the acquirer and the acquired firm (as in domain strengthening and domain extension), the differences in NC and OC became more evident and caused more problems in the post-acquisition management process.



Table 11.3: Findings on the three integration strategies

	Absorption strategy	Symbiosis / Interdependence strategy	Preservation strategy
Leadership style	<ul style="list-style-type: none"><li>▪ Authoritarian</li></ul>	<ul style="list-style-type: none"><li>▪ More democratic</li></ul>	<ul style="list-style-type: none"><li>▪ Abdicate</li></ul>
Degree of post-acquisition changes	<ul style="list-style-type: none"><li>▪ Very high throughout the process</li><li>▪ Common processes is the target</li></ul>	<ul style="list-style-type: none"><li>▪ Medium to high in later phases</li><li>▪ Common processes in the long run</li></ul>	<ul style="list-style-type: none"><li>▪ Low</li><li>▪ Change limited to top management</li></ul>
Number of people involved	<ul style="list-style-type: none"><li>▪ Entire acquired company</li></ul>	<ul style="list-style-type: none"><li>▪ Many involved, increasing with time</li></ul>	<ul style="list-style-type: none"><li>▪ Only top management; most employees do not feel the change</li></ul>
Time frame to achieve M&A targets	<ul style="list-style-type: none"><li>▪ Long-term</li></ul>	<ul style="list-style-type: none"><li>▪ Medium to long term</li></ul>	<ul style="list-style-type: none"><li>▪ Continuity</li></ul>
Degree of cultural clashes	<ul style="list-style-type: none"><li>▪ High NC and OC</li></ul>	<ul style="list-style-type: none"><li>▪ Medium to high NC and OC</li></ul>	<ul style="list-style-type: none"><li>▪ Low NC and OC (only apply to those who need to make changes)</li></ul>

Source: Author



### ***11.3.2 Extent of post-acquisition changes***

As mentioned in Chapter 4, the literature in this area is still highly fragmented because of the high attention to the human resource planning aspects of the M&A.

This study found that the main post-acquisition changes were adopted successfully (or more quickly) after the acquired senior executives were replaced. However, the replacement of senior executives did not take place until at least three years after the M&A. This was intentional because the acquirer wanted to retain the acquired expertise of the products and markets. This was especially crucial in the domain extension M&As as the acquirer was entering into new areas of the business. There was of great importance in retaining the good customer relations acquired through the M&A (Angwin, 1998).

When the senior executives were replaced, the acquirer made sure that their replacements were locals. The acquirer either hired from its local competitors or internally promoted an individual who was compatible for the job or internal transfers within the acquirer's umbrella. The purpose of this strategy was to retain the image of a local firm for its customers. This was because before the M&As, the acquirer spoke to key customers to seek their opinion of the M&A being associated with the American MNE. The local customers mentioned that they would continue doing business with the firm after the M&A, if they dealt with local employees.

Once the replacement of senior executives was completed, the acquirer found it much easier to implement quickly any changes into the M&As. This complements Angwin's study (1998). This could be because the resistant behaviour from the previous management was almost eliminated. However, NC differences still do exist between the acquirer and its acquired firms as the managements are made up of locals.

Furthermore, the literature cannot seem to agree on the *timing of post-acquisition changes*. Some argue that quick implementation is best as employees expect changes in the beginning (Shrivastava, 1986; and Schweiger et al. 1993), others believe that



the firms should 'go slow' and prepare people for change (Yunker, 1983), whilst others argue that slow implementation is due to ineffective management (Haspeslagh and Jemison, 1991).

This study suggests that the timing of changes should take place after a period of time and not immediately after the M&A (for domain strengthening and domain extension M&As). This would allow the acquirer to learn about the new business and the new market it acquired. This complements the Napier et al study (1991) which argues that there should be a period of 'adjustment' and 'getting to know each other' before any major changes are made. Implementing changes immediately would force the senior executives to leave quickly before the acquirer has a chance to learn about the M&A.

In Haspeslagh and Jemison's study (1991), their sample consisted mainly of domestic M&As. Therefore, their finding of implementing changes immediately in a cross-border domain strengthening M&A is not supported in this study because the acquirer enters a new country and new market in cross-border M&As. Therefore, the findings in this research suggest that time should be allowed for the firms to learn about each other's cultures (NC and OC), markets, and business lines before major changes are implemented.

### ***11.3.3 Acquired employee behaviour***

The data suggest that the main sources of either negative or positive behaviour in the acquired firm were based on how well the acquirer acknowledges and deals with any cultural differences when dealing with post-acquisition changes.

In this study, being inexperienced in the M&A strategy, the post-acquisition management process was financially driven. There was little consideration of the management of cultural differences between the parent and its acquisitions. There was no formal integration plan and integration team set up in the acquired sites for the first three M&As. These contributed to the varying levels of resistance encountered at the acquired subsidiaries. The data showed that there were two types



of resistance that took place during the post-acquisition process: *management resistance* and *employee resistance*. These forms of resistance took place with differing intensity and at various phases of the process.

### **Management resistance**

Resistant behaviour in the acquired firm was initially seen at the acquired management level. This was due to the initial contact between managements to learn to work together after the deal was completed. This has been termed as the *management resistance*. The root of this resistance is associated with Lewin's force-field theory (1951), where the acquirer drive forces in attempt to bring about change in the acquired subsidiary; while the restraining forces are put up by the acquired management in order to maintain a status quo. This form of resistance usually took place in the early phases of the acquisition and tended to diminish over time, either through acceptance of the new situation from the acquired management or replacement of the acquired management by the acquirer.

The degree or intensity of resistance from the acquired managements depended on how varied the cultural differences were between them and their acquirer. Evidence showed that the NC differences in intolerance to uncertainty, power orientation, language, individualism vs. collectivism, and masculinity vs. femininity, were the underlying manifestations for the fear of loss of control, failure to build mutual trust, dislike of being 'forced' to change and reluctance to alter its established processes. These are seen in Figure 11.9.



Figure 11.9: Sources of management resistance during the post-acquisition process



Source: Author

In a clockwise order, the inner rim of the above diagram is explained next.

- **“Forced’ to change without consultation.** All the acquired cases in this research were entrepreneurial firms where the leaders were used to making their own decisions for the businesses they built from scratch. Furthermore, there was a more participative management in these small firms, and hence after the M&As, the leaders were not used to being ‘forced’ to change. They were not consulted as to why the changes were needed and therefore were unhappy to accommodate the changes immediately.

This enforced change created a high level of tension in the acquired firms. The effects were higher in national cultures that were more collective in nature. For example, the Swedish case had a more collective NC, participative leadership and a flatter structure than the acquirer, which had an individualistic NC with autocratic leadership and hierarchical structure.



- **Failure to build mutual trust.** This happened because there was a failure from both the acquirer and the acquired firms to develop close relationships where there was mutual trust and benefit about the future of the business. There was evidence that the American acquirer threatened the subsidiaries if they did not comply with the post-acquisition changes immediately. The threats took the form of withdrawal of resources. Furthermore, there was a general feeling among all the acquired managements that the requirement for constant reporting was a result of the acquirer not trusting them to run the business successfully.
- **Fear of loss of control.** Since the acquired subsidiaries were all entrepreneurial firms, there was a fear among its original founders or leaders that, if they adopted the post-acquisition changes, they would lose complete control of their firms to the acquirer. There was a fear of 'letting go'.
- **Large company systems and structures.** The management have to report to new functional managers in the acquirer's structure. Evidence in this research showed that there was a change in the information flows inside the acquired company. The flow had to change from the family web to the multiple vertical and horizontal channels of the matrix structure of the American acquirer. This created lots of confusion, especially in the first phases of the post-acquisition process. Hence, instead of trying to understand the changes, many of the acquired management personnel simply did not 'listen and obey' the post-acquisition changes handed down to them.

### **Employee resistance**

As time passed and more interactions between the acquirer and the acquired firm increased through the implementation of common systems and processes in the acquired firm, the resistance arose from the lower levels of the organisations, termed as *employee resistance*. This form of resistance tended to begin during the mid-phases of the post-acquisition process and reduced over time as employees either resigned or accepted that they could not do much to stop the post-acquisition changes.



The explanations as to why employees in the acquired firm tended to resist or behave negatively to post-acquisition changes were slightly different to the management resistance. Figure 11.10 provides the common pattern among all four cases, irrespective of cultural manifestations in each country or firm.

Figure 11.10: Sources of employee resistance during the post-acquisition process



Source: Author

- **Fear of the new:** the acquired employees were fearful of the unknown and also feared that change would result in their having more work to do with the same or lower benefits/rewards. This was especially evident in the German acquisitions where the German culture was found to be most intolerant to uncertainty.
- **“Our way is right, their way is wrong”:** the employees sometimes felt that the new procedures or systems introduced after the M&A were not always the best move for the acquired company, as they strongly believed that “our systems and procedures are right; they who want us to change are wrong”. This was very evident in both M&As sites in Germany. There was a chauvinistic conditioning among the people that their technology and processes were far superior to those of the Americans. Therefore, there was considerable procrastination in these



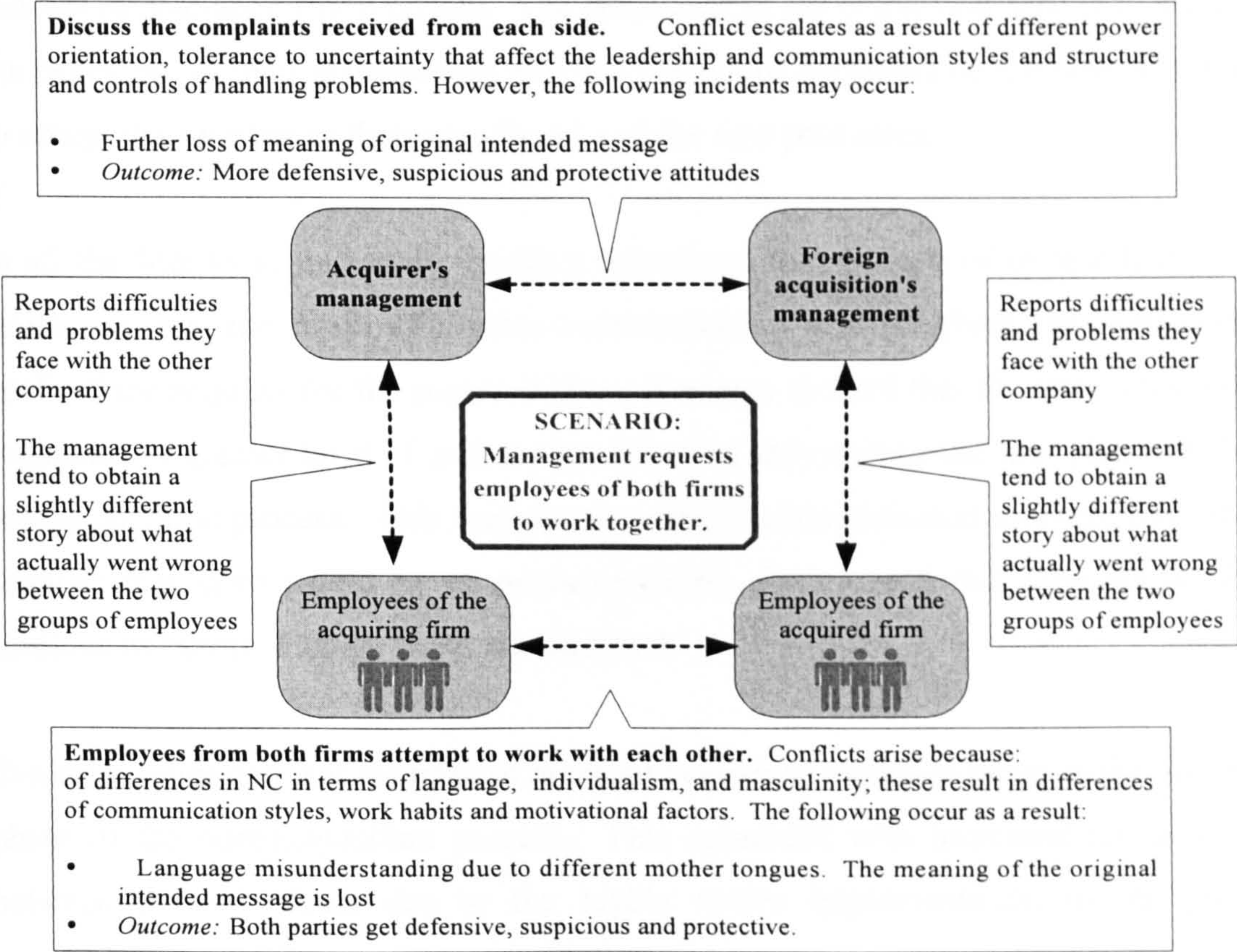
M&As concerning the American processes. This can be likened to the personal reluctance to make the effort to change as a contributing factor to the hostile behaviour (Galpin, 1996).

- **Lack of communication:** This was a common weakness in all four case studies. The employees were not entirely aware of what they had to change and how to change. These findings coincide with Galpin's work (1996) where his research found that 'not knowing behaviour' is a result of a lack of knowledge of information about the integration effort. This was due to three reasons:
  - Communication of post-acquisition changes was delayed;
  - Instructions concerning changes were incomprehensible or difficult to understand (procedures were not translated to the native language); and
  - Training for the new procedures was insufficient or delayed which resulted in the lack of ability to perform the changes (Galpin, 1996).

In addition, the different communication styles between employees in the acquirer, and the acquired firms varied. A typical post-acquisition communication breakdown is seen in Figure 11.11. This figure illustrates how possible communication problems arose between the acquirer and acquired firms in this study. This breakdown in communication was very much evident throughout the past ten years in German Security, French Security and German Antenna.



Figure 11.11: An illustration of breakdown in communication during the post-acquisition process



Source: Author

- **Do not like to change:** change is not a natural condition for any human being and hence difficult to absorb when introduced. Furthermore, most employees liked the way things were before the M&A and change required them to alter their long-standing habits. Hence, they preferred using their old procedures or old ways of doing things, as it was simpler because it was already understood. New procedures had to be learnt and this created further resistance in the M&As.

The above were the sources of post-acquisition resistance from acquired employees in this study. They caused conflicts between the acquirer and the acquired firm to arise and escalate from issues such as *timing*, and *communication and implementation* of any future post-acquisition changes. This finding supports previous studies such as Angwin (1998), Gertsen and Soderberg (1998) and Child et al (2001).



### **Evidence of behavioural change in acquired subsidiary**

Analysis of the behaviour of acquired employees found that it changed over the process of post-acquisition phases. The behaviour of the employees tended to mimic the behaviour of their management and this behaviour depended on the time required to accept the acquirer as their new 'boss' and the new processes.

In all the M&As in this study, positive behaviour, that is, lack of or low levels of resistance, was the result of a clear communication process about the immediate goals of the acquirer for the acquired firm. Findings showed that the lowest level of resistance or greater level of satisfaction occurred only during the first phase of the post-acquisition process. This was due to a clearly communicated message from the acquirer that there would be no post-acquisition changes and that business would continue as before with the same management.

Evidence suggested that the peak of resistant behaviour tended to occur in the second phase of the post-acquisition process. This coincided with increased interactions between the two firms due to the highly active implementation of the post-acquisition changes.

In order to reduce resistance in the acquired firms, the acquirer to some extent adopted the three-stage approach of weakening resistance in the acquired firms (Lewin, 1951; and Schein, 1964). The US acquirer managed to reduce the levels of resistance in the following manner (Figure 11.10).

**Stage 1:** The acquirer unfreezes existing behaviour by gaining acceptance for change of ownership among the management and the employees, by reassuring them that there would not be any change in the way they ran their business in the short-term.

**Stage 2:** The acquirer changed negative behaviour through the replacement of senior executives (Figure 11.12):

- External local hire



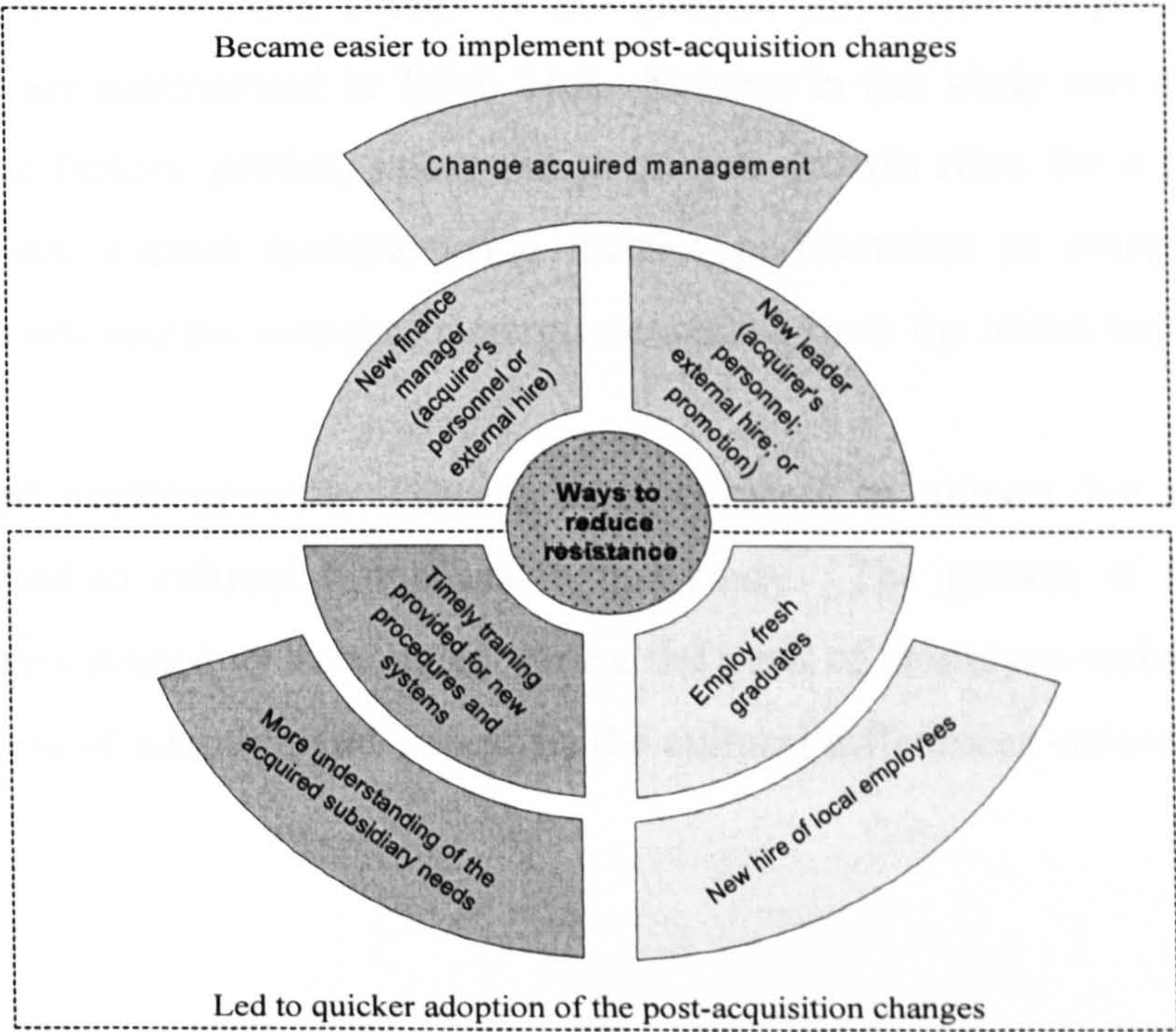
- Internal transfers from another division or company that belonged to the acquirer (also consisted of locals but already familiar with the acquirer's OC)
- Promotion of local staff that were compatible with the acquirer's OC

Although these moves led to faster diffusion of post-acquisition changes, it created fear among the lower level employees that they were ‘not wanted’ and many decided to resign. However, this was not seen as very negative from the acquirer’s view as this allowed them to hire new employees, which led to quicker adoption of new procedures and systems.

**Stage 3:** The acquirer refreezes behaviour through the reinforcement of new patterns of thinking and working by injecting new local ‘blood’ into the acquired subsidiaries (Figure 11.12):

- New hire of local employees (the disadvantage was loss of experience and established relationship contacts with OEMs)
- Acquirer being more culturally aware of differences

Figure 11.12: Ways to reduce resistant behaviour at the acquired firm



Source: Author



By replacing employees, the acquirer managed to diffuse new attitudes among the local employees and reinforce the new patterns of thinking and working (Schein, 1964).

Except for Swedish Consultancy, all the 'receivers' at the acquired sites mentioned that the behaviour in their firms today is more hierarchical and impersonal as compared to before the acquisition. They complained that their current leaders are not as involved with the daily operations as before and were convinced that the managing directors do not know their names and responsibilities in the firm. This finding supports the study conducted by Levie and Hay (1997) concerning entrepreneurial culture. They found that the culture of the company becomes 'colder' as the organisation grows. Since, except for French Security, all the other M&As have grown in size since the M&A, it is a natural process for the OC to become less personal, more structured, and less proactive (Stopford and Baden-Fuller 1994).

#### 11.4 POST-ACQUISITION PERFORMANCE

This research suggests that cultural differences and influences affect cross-border M&As success. The exact details of the cultural influences on post-acquisition performance are summarised in Table 11.4. Success in this study was measured on the following factors: profits, sales, and employee growth rates for a period of at least ten years, current manufacturing metrics performance as compared to the headquarters site and the extent of synergies captured since the M&A took place.

- **Sales and profit growth:** There is some evidence to support that sales growth was related to cultural influences in this study. The growth of the acquired subsidiaries tended to slow down during the peak of employee resistance due to the process of adapting and accepting the cultural differences encountered in the M&A.



Table 11.4: Cultural influences on cross-border M&As performance

M&A	Age of M&A	Degree of culture influences	Level of resistance	Performance over the phases	Degree of integration today	Degree of success today
German Security	13 years old	Major differences in culture language, tolerance to uncertainty, power orientation, communication styles, interpersonal relations, and leadership styles	High <ul style="list-style-type: none"><li>At employee level in regard to new systems and processes</li></ul>	Phase 1-3: Slow in capturing of synergies. Profits were low. Very high turnover of employees  Phase 4: Synergies are being captured with French Security	Fully absorbed	Success <ul style="list-style-type: none"><li>Grew in size</li><li>Obtained more customers to its portfolio</li><li>“Teaching’ or sharing production knowledge with the US headquarters production site</li><li>However, still to complete all the post-acquisition changes required for common systems and processes</li></ul>
French	11	Vast differences in influences in	Extremely High	Phase 1: Sales	Fully absorbed	Not successful



<b>Security</b>	years old	<p>phase 1 of the acquisition made post-acquisition changes difficult to implement</p> <p>However, when the management was replaced with the acquirer's own personnel, the OC differences were not as big. Nevertheless, the underlying NC continued to influence the way things were managed. This was due to the fact that most of the new management personnel were French</p> <p>Slowest to adopt any post-acquisition changes. A lot of procrastinations from lower level employees</p>	<ul style="list-style-type: none"> <li>At the acquired management level in the beginning</li> <li>Resistance emerged at employee level and the acquirer continues to face difficulties of implementing post-acquisition changes today</li> </ul>	<p>initially improved due to securing a huge French contract.</p> <p><i>Phase 2-3:</i> However since then, no improvement in terms of capturing the French market (i.e. new customers)</p> <p>Firm has not grown in size</p>	<ul style="list-style-type: none"> <li>Did not grow in size and in terms of adding new customers to its portfolio</li> <li>Still struggling to complete post-acquisition changes</li> </ul>
<b>Swedish Consultancy</b>	10 years old	<p>The national cultures between the US and Sweden were similar in many ways. This, to an extent assisted in the understanding of each other's way of conducting business.</p> <p>However, there were large differences in organisational cultures due to the fact that</p>	<p><i>Low</i></p> <ul style="list-style-type: none"> <li>Contained at the management level</li> <li>Resistance did not spread down the hierarchy</li> </ul>	<p><i>Phase 1:</i> The firm continued to grow rapidly due to the unique service provided to the industry</p> <p><i>Phase 2:</i> Some degree of stagnant growth</p>	<p><i>Very successful</i></p> <ul style="list-style-type: none"> <li>Grew in size rapidly</li> <li>Sales and profits remain high</li> </ul>



			Swedish Consultancy is in the service business and not manufacturing. Main cultural problems were language and communication styles; and power orientation and leadership styles.				
German Antenna	8 years old	First Automotive was more aware that it had to take cultural differences into account in this M&A. However, similar complaints were still heard from the interviewees at the acquired firm when compared to the earlier M&As.  The cultural influences at play in this M&A were language and communication styles; and power orientation, structure and controls and leadership styles.	Moderate <ul style="list-style-type: none"><li>▪ Resistance came from the previous managing director and his close associates</li><li>▪ Employee resistance stemmed from difficulties in dealing with the American counterparts and making the post-acquisition changes</li></ul>		Interdependent towards absorption	Most successful <ul style="list-style-type: none"><li>▪ Grew in size</li><li>▪ Maintained market leadership in its field of expertise</li><li>▪ “Teaching’ or sharing production knowledge with the US headquarters production site</li></ul>	

Source: Author



- **Employee growth:** Except for the French acquisition, all the other M&As grew in size after they were bought. There was no evidence that this performance measurement tool was related to cultural differences.
- **Synergies:** The larger the cultural differences, the slower it was to capture the intended synergies of the acquisition. For example, in French Security and German Security, where the differences in NC and OC (combined) with the American acquirer were higher than in the other two M&As, this research found that in all four cases, the intended synergies are yet to be fully captured. This is despite the fact that all the M&As are at least eight years old. This finding supports other studies claiming that achieving operating synergies are extremely complex and can take several years (Kitching, 1967; and Mueller 1980).

In the current literature, research has found that an M&A has a negative impact on the new entity (Marks, 1999; and Tetenbaum, 1999). However, this study seems to suggest otherwise. In all four M&As, the acquired firms have performed better than when they were first acquired. All the firms have increased profits and sales since the acquisition. There are several reasons behind the success rate found in this study:

- Measurement of success in this study was taken over at least an eight-year period. If success in this study were measured for only the two-year period after the M&A, common in the literature (Sirower, 1994; Mueller, 1995; Larsson and Finkelstein, 1999), success rates would be relatively lower. Sales and profit growth rates would not be as high as the costs that go into increasing business size had not been spread out over a longer period. Furthermore, the manufacturing metrics would not have been as near to the target levels as the difficulties of integrating new processes and systems were in infant stages. Both management and employee resistance due to the cultural influences would be at the peak stages and productivity would have been much lower. Basically, it would have been too soon to obtain an accurate picture of whether the M&A was a success



- The acquirer bought small entrepreneurial companies at reasonable prices. It did not overpay for its M&As, as many other M&As in the market tended to do (Copeland, Koller and Murrin, 1994).

## **11.5 ANSWERING THE RESEARCH QUESTIONS**

Based on the above discussion this section answers the research questions (RQ) discussed in Chapter 4, Table 4.1. Table 11.5 summarises the findings according to the research questions and objectives set for this thesis.



Table 11.5: Answering the research questions

RESEARCH OBJECTIVES (RO)	RESEARCH QUESTIONS (RQ)	FINDINGS FROM RESEARCH SUGGEST
1. To produce a theoretical framework of managing the cross-border post-acquisition process incorporating a multi-dimensional cultural framework	<div>i. How does culture influence the cross-border post-acquisition process?</div> <div>ii. Which cultural dimensions influence the post-acquisition process?</div>	<p>Overall, the differences in NC and OC between the acquirer and the acquired firm seemed to influence the post-acquisition process in the following ways:</p> <ul style="list-style-type: none"><li>▪ <i>Post-acquisition behaviour</i> adopted in the acquired firm.<ul style="list-style-type: none"><li>- The higher the differences between the firms, the more resistant behaviour were encountered.</li><li>- This is because the degree of acceptance of post-acquisition changes handed down from the acquirer was managed with little cultural sensitivity.</li></ul></li><li>▪ The degree and timing of acquisition <i>success</i> in terms of capturing synergies:<ul style="list-style-type: none"><li>- The data suggest that the wider the differences between NC, the slower it was to achieve the acquisition motives and synergies (e.g. French Security).</li></ul></li></ul> <p>An examination of the twelve cultural dimensions showed that:</p> <ul style="list-style-type: none"><li>▪ The influences of each dimension on the process depended on the timing of the post-acquisition process, or the sub-phase the acquisition is in. For example, in a domain strengthening M&amp;A, there were four post-acquisition sub-phases, and in the domain extension or exploration M&amp;A, there were three sub-phases.</li></ul> <p>The NC dimension, ‘language’, seemed to play the most important role in the post-acquisition process, regardless the type of M&amp;A and the sub-phase the M&amp;A was in. This in turn influenced the OC dimension, ‘communication style’ suggesting that language and communication styles are the most important factors influencing the post-acquisition process.</p>



<p>2. To investigate the above frameworks through primary research</p>	<p>i. Based on findings primary research, do the frameworks apply?</p> <p>ii. Do NC and OC interact during the post-acquisition process?</p> <p>iii. How do NC and OC interact during the post-acquisition process?</p>	<p>The data suggests that the theoretical frameworks do apply. The post-acquisition management wheel seems to be affected by the degree of cultural differences and interactions, which in turn affected post-acquisition success.</p> <p>The data suggests that NC and OC do interact with each other. However, there seem to be a pattern that not all six NC dimensions interacted with all the six OC. The following patterns of interactions seem to emerge from this study:</p> <ul style="list-style-type: none"> <li>▪ Power orientation <i>with</i> leadership style; communication style</li> <li>▪ Individualism <i>with</i> leadership style; motivation/staffing/training</li> <li>▪ Tolerance for uncertainty and to other cultures <i>with</i> structures and controls; interpersonal relations</li> <li>▪ Time orientation <i>with</i> goal and value alignment</li> <li>▪ Language <i>with</i> communication style</li> <li>▪ Masculinity <i>with</i> interpersonal relations; motivation/staff/training</li> </ul>
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<p>2a. To critically analyse the effects of those cultural dimensions on the post-acquisition behaviour of employees in the acquired firm</p>	<p>i. How do differing NC and OC interaction influence the post-acquisition behaviour?</p> <p>ii. How does the acquirer manage these interactions and resulting behaviour?</p> <p>iii. Do NC or OC in the acquired firm change during the post-acquisition process?</p>	<p>In the early phases of the post-acquisition process, the differing interactions caused a lot of negative behaviour from the acquired firm. High levels of resistance were encountered.</p> <p>The acquirer attempted to eliminate the negative behaviour in a variety of ways. For example, in France, the acquirer dismissed the management due to the irreconcilable differences between the leadership styles (due to different power orientation). In addition, new hire of local employees was injected during the mid-phases of the process. This always seemed to result in a quicker adoption of the further post-acquisition changes handed down from the acquirer.</p> <p>The data suggests that NC is more difficult to change (Hofstede, 1980; and Trompenaars, 1993) as the interviewees mentioned that they still find it difficult to work with each other because of differences in values and attitudes.</p> <p>However, OC in the acquired firms seem to have changed over the post-acquisition process. It seems as if all the acquired firms have become less entrepreneurial in their business activities as they grew in size. This resulted in more structure, controls and processes that were handed down from their acquirer. In the entrepreneurship literature, the key factors that distinguish an entrepreneurial culture are proactiveness (Stopford and Baden-Fuller, 1994); a flat organisational structure; and revolutionary vision (Stevenson and Gumpert, 1985). These factors were initially encompassed with the OC so the acquired firms, but it seemed to have diminished over time after being acquired. Does this mean that M&amp;As lead to a decline in entrepreneurship? This is a new area in which further research could attempt to answer.</p>
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<p>2b. To identify the responses of employees in the acquired firm during post-acquisition changes</p>	<p>i. Why do the acquired employees behave the way they do in the post-acquisition process?</p> <p>ii. Which factors affect their behaviour?</p> <p>iii. Does their behaviour change over the course of the post-acquisition process? Why?</p>	<p>According to the findings in this research, the employees behaved negatively during the post-acquisition process because of several factors:</p> <ul style="list-style-type: none"> <li>▪ Poor leadership style adopted by the acquirer (Haspeslagh and Jemison, 1991)</li> <li>▪ Poor communication process (Hubbard, 2001)</li> <li>▪ Continued differences in NC, as NC is very stable and difficult to change (Laurent, 1989)</li> <li>▪ Personal reluctance of acquired employees to accept and adopt the changes (Gaplin, 1997)</li> <li>▪ Each management involved in the M&amp;A becomes more entrenched in their view, less tolerant and accepting of the other, more defensive, less communicative, and more emotional (Larsson and Risberg 1998). This led to an escalation of resistance levels during the mid-phases of the post-acquisition process.</li> </ul> <p>Behaviour seemed to become more positive over time as the most resistant employees resigned and are replaced by new hire to inject ‘new blood’. These new employees have no idea on how the firm was run prior to the M&amp;A, hence do not have as many objections to any new processes or systems implemented from the acquirer.</p>
<p>2c. To identify whether cultural differences are relevant to cross-border acquisition performance</p>	<p>i. Are culture differences related to the cross border performance?</p> <p>ii. How are they related?</p>	<p>This study seem to suggest that when the differences in NC are large, as in between the US and France, the post-acquisition success seems to be affected.</p> <p>Other factors contributed to the success of the M&amp;As. These include: seizing opportune market opportunities, industry performance (demand and supply) and economy of the country in which the M&amp;A took place. The acquirer in this case, saw lucrative market opportunities and predicted the right product demands when it bought the four firms. However, it seems that the French M&amp;A has failed to take off as successfully as the other M&amp;As. This M&amp;A did not grow in terms of size and capturing the French customers as the acquirer had hoped. The acquirer has placed the blame on attitudes of the management in France.</p>

Source: Author, extracted from Table 4.1 in Chapter 4.



### ***11.5.1 Lessons for management***

The third research objective was to identify the managerial implications of the research, which intended to answer the following research questions:

- What are the factors the acquirer must consider, understand, and plan for before implementation of the M&A?
- How should they manage cultural differences?
- How should they deal with resistant behaviour?

The management of the post-acquisition process differs according to the type of M&A conducted. The differences and the management of the factors that influence each M&A are seen in Figures 11.13 to 11.15. These figures provide suggestions on how to manage the post-acquisition wheel described in Chapter 4 for domain strengthening, extension and exploration M&As.

In general, based on the findings of this study, irrespective of the type of M&A, the acquirer *must consider, understand and plan for* are divided into before the M&A and post-M&A stages:

#### ***Before the M&A: Important to set the 'track' of the post-acquisition process***

The acquirer must:

- Set up a M&A team consisting of a good mix of people from the acquirer and the acquired firm;
- Be specific on the motives of the M&A;
- Understand and set the objectives for the acquired firm;
- Plan for the future and how the acquired firm fits into its multinational umbrella;
- Conduct a preliminary cultural audit among the management personnel; and
- Reassure the employees in the acquired firm of their future in the firm after the M&A deal is signed to reduce the fear and anxiety they might feel of having new owners.



Refer to the first column in Figures 11.3 to 11.5 for more details. Once the above is understood by the acquirer, the M&A team must be clear on the type of M&A it is conducting and design the appropriate integration strategy for it:

- Domain strengthening → Preservation → Absorption strategy;
- Domain extension (concentric) → Preservation → Interdependence strategy; and
- Domain exploration or extension (vertical) → Preservation strategy throughout.

If the acquirer is clear on the above prior to the signing of the M&A deal, the post-M&A process would be easier to handle, as the chosen integration strategies are assumed to have been planned for.

#### ***Post-M&A: More crucial and need more attention***

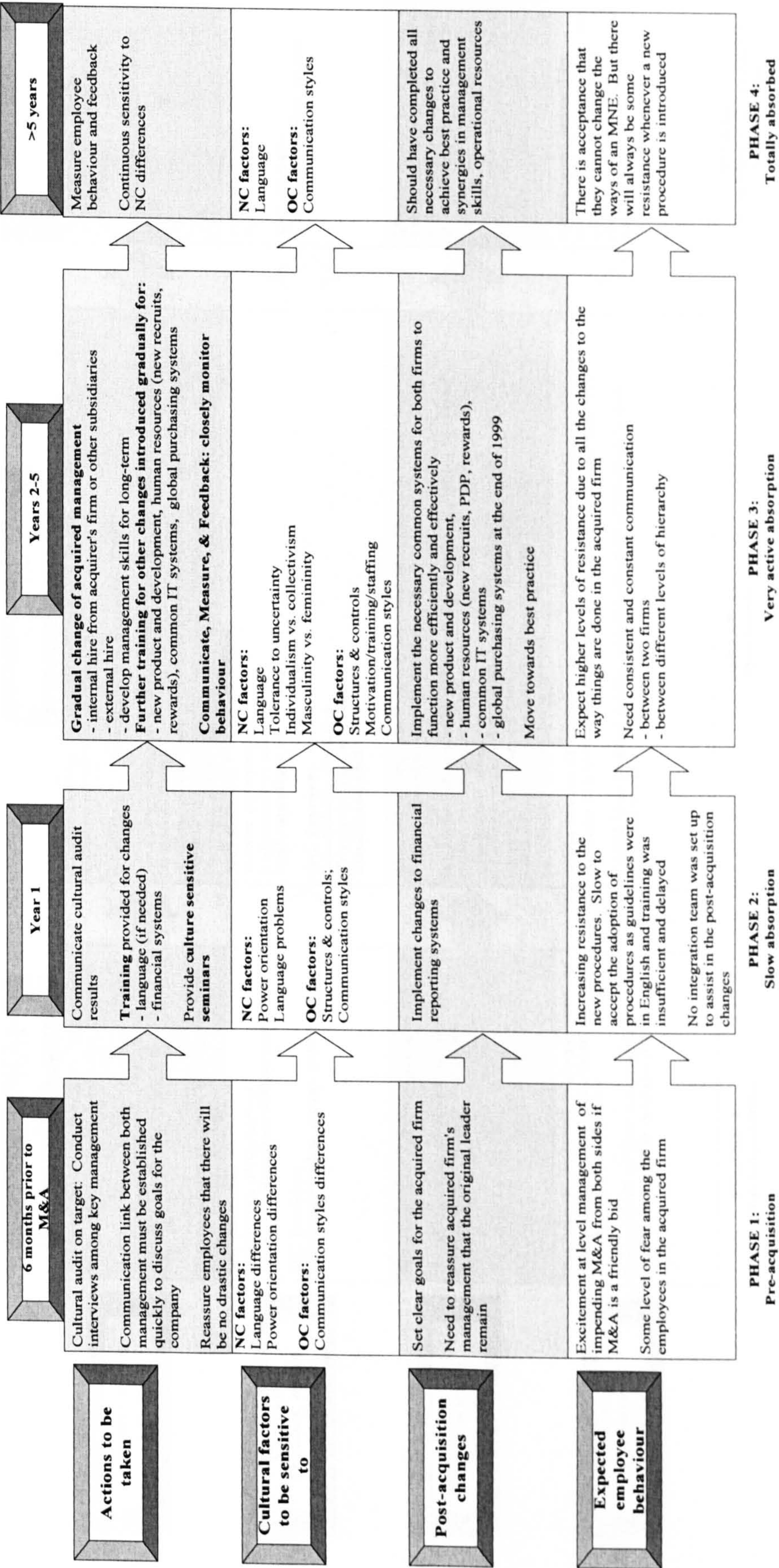
The post-acquisition process is a lengthy and difficult process because of various factors that are involved in it. It is therefore important that the acquirer:

- During the first year of the M&A, the acquirer should conduct a full-scale cultural audit and communicate the results to employees involved in any post-acquisition changes.
- Both firms must anticipate the forces of cultural influences during the post-acquisition process, particularly the acquirer, and be flexible and open to differences.
- Understand that the interactions of cultures (NC and OC) are different at various post-acquisition phases; and
- Be sensitive to the implementation of post-acquisition changes such as the timing and gaining co-operation from employees.

Refer to Figures 11.3 to 11.5 for the possible cultural impact, employee behaviour, and performance for the different types of M&A.



Figure 11.13: Domain strengthening M&A: Timing of post-acquisition expected actions, cultural differences, changes and employee behaviour



Source: Author



Figure 11.14: Domain extension (concentric) M&A: Timing of post-acquisition expected actions, cultural differences, changes and employee behaviour

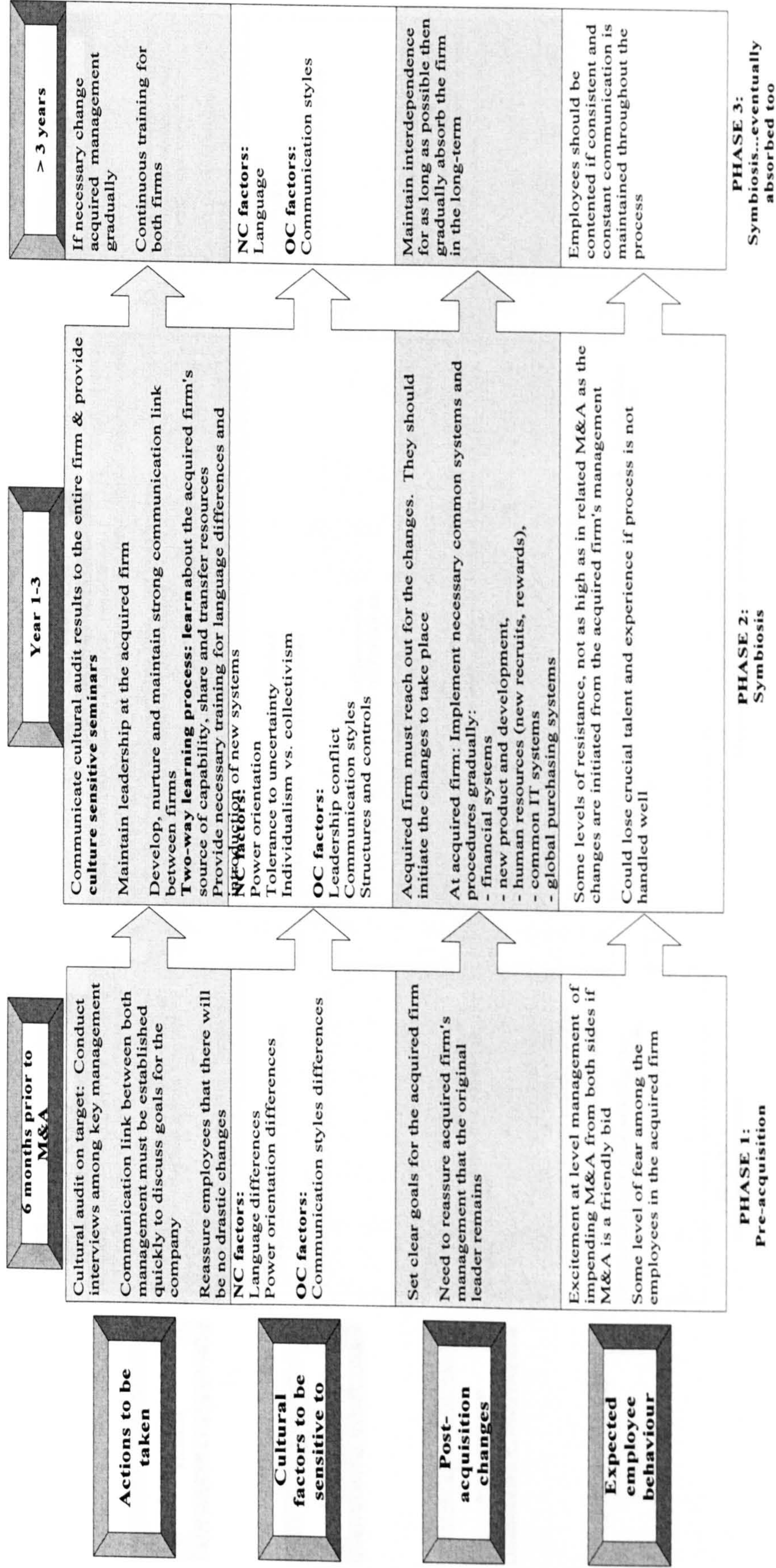
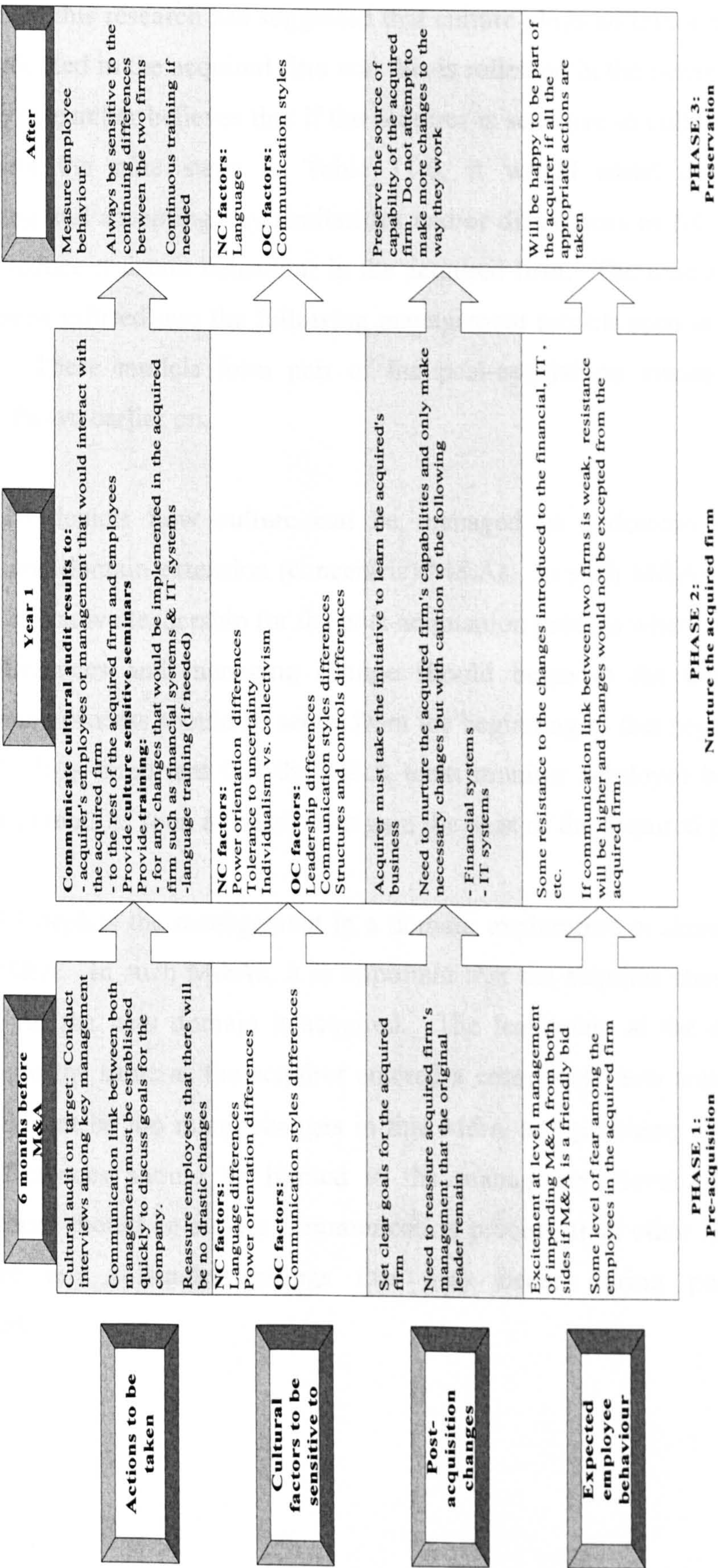




Figure 11.15: Domain exploration or extension (vertical) M&A: Timing of post-acquisition expected actions, cultural differences, changes and employee behaviour



Source: Author



### ***Steps to more successful cultural integration:***

Evidence from this research has suggested that culture plays an important role in the behaviour adopted in the acquired firm and this is reflected in the performance of the M&A. The researcher believes that if the acquirer is sensitive to cultural differences and conducts the nine steps in Table 11.6, it would assist the acquirer in understanding and accepting any similarities and/or differences in NC and OC, and this would reduce resistant behaviour in the acquired firm. The nine steps in Table 11.6 have been infused into the following management models seen in Figure 11.16 and 11.17. These models form part of the post-acquisition management wheel framework shown earlier on.

Figure 11.16 depicts how culture can be managed in a domain strengthening acquisition and domain extension (concentric) M&As. In such M&As, there should be a strong executive leadership for the post-acquisition process where understanding cultural differences and managing change should begin at the top. A clear communication process should be set up from the beginning so that negative rumours are limited. It is important that the M&A team monitor employee behaviour and solve any problems as soon as possible to gain the trust of the acquired personnel.

Figure 11.17 depicts the management in a domain exploration or domain extension (vertical) M&A. In such M&As, it is important that the acquirer shows interest in learning about the new domain it acquired. The leadership at the acquired firm should remain the same as the acquirer entered a completely new area of business. There should not be too many changes in this M&A and problems associated with cultural differences should be limited to the management level of both firms. However, there should be a clear communication process as in other M&As, as this will reduce any misunderstandings that may occur during post-acquisition management.



Table 11.6: Steps to successful cultural integration

Step	Strategy	Action(s)	Timing
1	Include culture on M&A agenda: Conduct audit	Explore differences through interviews, questionnaires and focus groups  A culture audit could involve interviews with management personnel and/or cultural survey distribution to the employees in the acquired firm. The findings from such research would be useful to the acquirer into gaining a better insight into the cultural differences (both NC and OC) prior to the M&A or during the first phase of the post-acquisition process. This could lead to a better selection of integration team members who could account for any variances in cultures for the post-acquisition management plan.	Begin with interviews with the management personnel during the pre-acquisition stage and continue with surveys immediately after the deal is finalised
2	Identify & embrace culture differences	Identify and understand the basic values and assumptions of the country that underlines the managerial values and employee behaviours  Good example of embracing differences begins with the leadership team  Find ways to help CEOs and top management to be more sensitive to the impact of culture and to better deal with egos and pride  Provide cultural training sessions	Communicate immediately the results of the cultural audit to both managements
3	Plan the post-acquisition process diligently	As important as any other strategy in the company Should be explicit like a roadmap to include: <ul style="list-style-type: none"><li>- A few clear goals</li><li>- Set milestones and communicate achievements</li></ul> Integration plan is not static	Throughout the process
4	Select integration team members	From both companies	Discussion of members should be undertaken prior to M&A and selection of the team should take place

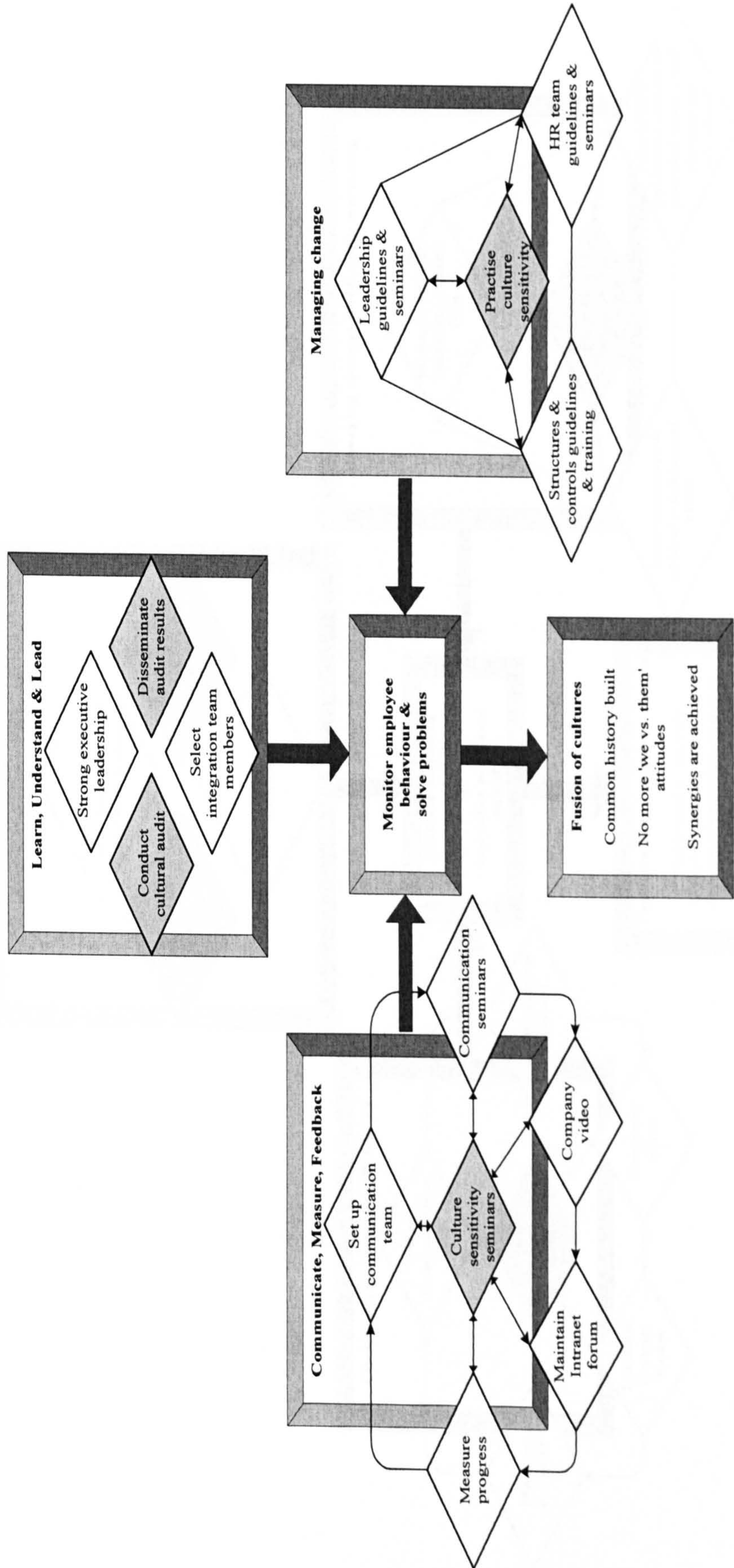


			immediately upon the finalisation of the deal
5	Select the level of integration	<p>Depends on the type of acquisition</p> <p>Select from absorption to preservation strategies</p> <p>Might adopt different strategies for different phases of the post-acquisition process to deal with the sensitive culture impact</p> <p>Bear in mind to honour the technological, economic and historical legacies of the acquired firm in order to gain trust, commitment and cooperation in the post-acquisition process.</p> <p>Language training</p> <p>Cultural training sessions</p> <p>Team building sessions</p> <p>New systems/procedures sessions</p> <p>To hone the skills, desire and knowledge among the management and employees to adapt to post-acquisition changes</p> <p>Emphasise the ‘soft skills’ of listening, negotiation, empathy, coaching, mentoring, and persuasion</p> <p>Seek continuous feedback</p> <p>Measure milestones set (synergies captured; sales/profits targets achieved; etc.)</p>	<p>Prior to M&amp;A and immediately after the deal is finalised</p> <p>From year one and throughout each of the post-acquisition phases</p> <p>From year one and when necessary</p> <p>From year zero and throughout the post-acquisition process</p> <p>From year zero and throughout the post-acquisition process</p> <p>Expect a long hard process!</p>
6	Gain commitment from managers & employees		
7	Provide relevant training		
8	Communicate: openly & honestly		
9	Monitor progress		

Source: Author



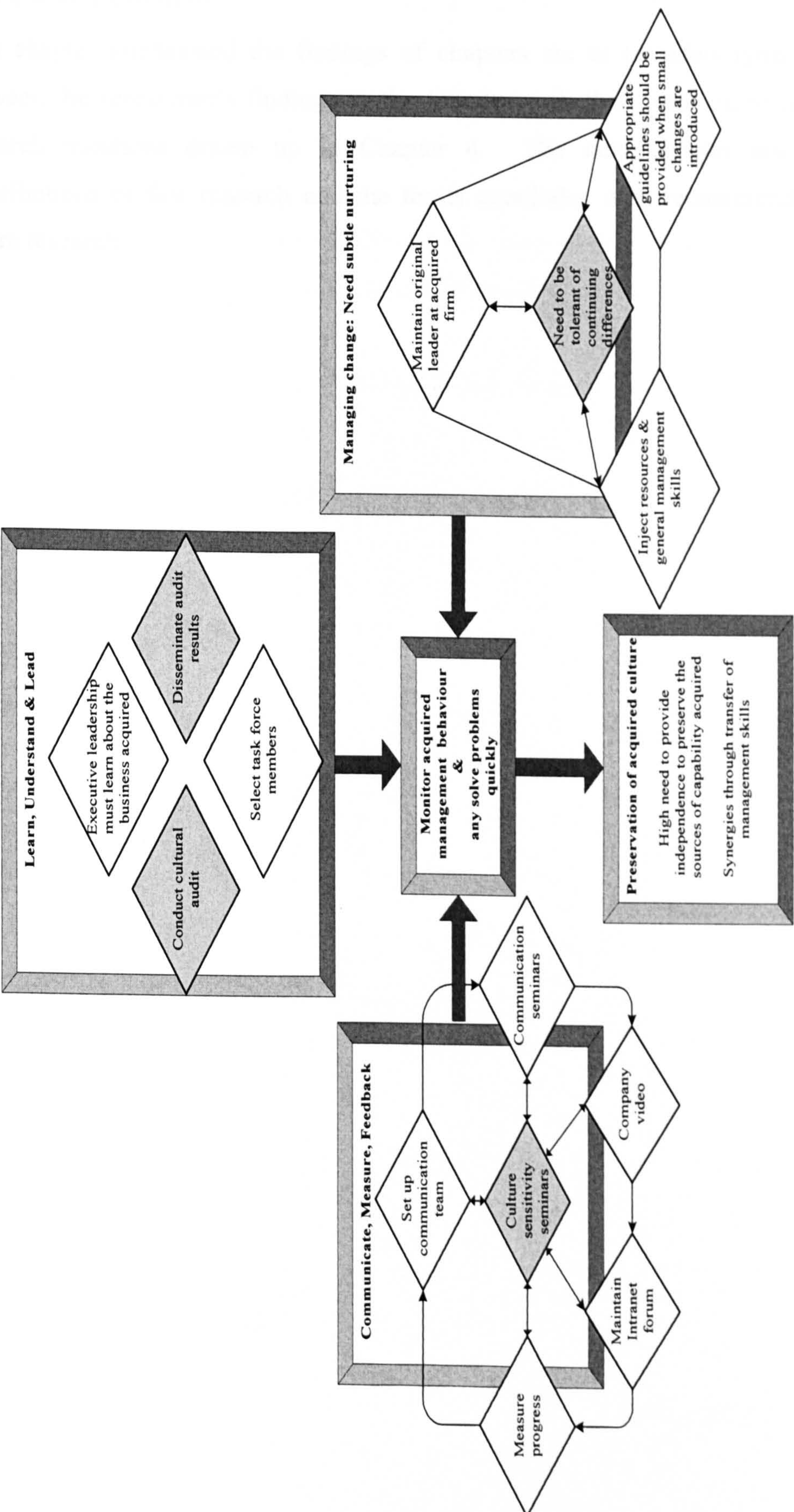
Figure 11.16 Managing the post-acquisition wheel for domain strengthening and domain extension (concentric) M&A



Source: Author



Figure 11.17: Managing the post-acquisition wheel for domain exploration or extension (vertical) M&A



Source: Author



## **11.6 CONCLUSIONS**

This chapter synthesised the findings of chapters six to ten identifying the links between the researcher's findings to the literature. It then went on to answer the research questions drawn up in Chapter 4. The next chapter discusses the contributions of this research and the thesis concludes with recommendations for future research.



## **Chapter 12: CONCLUSIONS AND RECOMMENDATIONS**

### ***Chapter Objectives:***

- To assess the contribution of this thesis in terms of knowledge development and methodological approaches for cross-border mergers and acquisitions
- To identify implications for firms and future research



## **12.0 INTRODUCTION**

Based on the literature the following issues were identified:

1. The need to study the post-acquisition process from both the acquirer's and acquired firm's point of view (Child et al, 2001)
2. The need to integrate both national and organisational cultures in the same study when evaluating the influences on M&As contributions (Vaara, 1999)
3. The need to build a sound cultural framework to manage the post-acquisition process (Calori, Lubatkin and Very 1994; and Morosini et al 1998)
4. The need to monitor the post-acquisition process longitudinally to evaluate performance over a lengthy period.

This final chapter of the thesis presents the contribution of this research. This is followed by the some recommendations represented as a series of research propositions that were developed from the analysis of the thesis results.

### **12.1 CONTRIBUTION OF RESEARCH**

The current research has attempted to bridge these gaps in the literature and the contribution of this research is discussed in relation to the literature, methodology, conceptual development and managerial implications.

#### ***12.1.1 Contribution to the M&A literature***

The findings and implications in relation to the main theories in the M&As schools of thought are presented in this section. The following arguments are advanced with the current research findings:



### **Capital market school of thought:**

- In the literature, M&A seems to have a negative impact on the economic performance of the new entity (Marks, 1999; and Tetenbaum, 1999). This study suggested otherwise. Most of the M&As in this study gained considerably by being acquired by a larger MNE in terms of access to international customer contacts, and increased sales and profits.

### **Strategic management school of thought:**

- Consistent with the negotiation-conflict process theory (Rubin and Brown, 1975; and Lewicki, 1992), when there is a conflict of interest (e.g. future objectives and goals for the M&A), what the acquirer wants is not necessarily what the acquired company wants, and the parties must search for a way to resolve the conflict. Management resistance was a result of this process. There was little agreement between the acquirer and its acquired subsidiaries in terms of how to lead the company, and implement common systems and processes. This caused an escalation of conflicts and resulted in some dismissals or voluntary resignations of senior executives in the acquired firms.
- Consistent with Deutsch's (1983) conflict theory, this study suggested that the conflict or tension between the two firms involved in the post-acquisition process tended to escalate because of emotionality, decreased communication, rigid commitments and magnified cultural differences and similarities.
- Consistent with the resistant theory in the management literature (Lewin, 1951; and Porter 1996), post-acquisition resistance in this study seem to be caused by the lack of timely or sufficient training, inadequate communication, low motivation among employees when their senior executives left the firm, and reduced creativity as a result of increased structures and processes. On top of this, negative behaviour arose from the differences in national and organisational cultural backgrounds, which became more apparent as greater interactions between employees occurred between the firms.



- Contrary to the argument of the positive relationship between relatedness and success (Seth, 1990; and Chatterjee and Lubatkin, 1990); this study suggested that unrelated M&As can also achieve success if managed well. This could be because the acquirer provides more autonomy to these 'unrelated' M&As; hence there is less interaction between the management and employees of the two firms (i.e. fewer cultural interactions and clashes).
- Consistent with this school (Fowler and Schmidt, 1989), there seemed to be a positive relationship between performance and acquisition experience. As the acquirer gained experience in managing the post-acquisition process, its later M&As gained greater success in a shorter time-span and were considered more successful than the earlier two.

#### **Organisational school of thought:**

- In Morosini' study (1998), it was argued that the wider the cultural distance between national cultures, the easier was the integration effort. However, the findings in this study seem to suggest that the wider the national cultural distance between the acquirer and the acquired firm, the more difficult it was to manage the post-acquisition process. The struggle of First Automotive to manage its French subsidiary is a constant reminder of how wide the national differences were and how difficult it is for both firms to improve the acquired firm's performance. On the opposite end of this continuum, the closer or more similar the national cultures between the acquirer and the acquired firm, the easier it was to manage the post-acquisition process. This was clearly seen in the case of acquiring into Sweden.
- Consistent with the organisational behavioural school, organisational culture differences seem to have affected the behaviour of the employees at the acquired enterprises. This research seems to advance this argument by suggesting that the interactions of NC and OC influenced the post-acquisition behaviour either positively or negatively.



- Consistent with the argument that persistent national cultural differences inhibit integration efforts (Olie, 1994; Gertsen et al, 1998; and Child et al 2001), this study suggested that national cultural differences continued to cause problems in all the M&As in terms of differences in language. In addition, in France, where the attitude towards time is highly different to the Americans, this continues to be a source of problem.
- Consistent with the Weber et al (1996) study, this study suggested that the acculturation of the cultural differences is easier if a higher degree of autonomy or an interdependent relationship is established between the acquirer and the acquired subsidiary. In Swedish Consultancy and German Antenna, the better performing M&As, had some degree of autonomy. This was not the case in German Security and French Security, where an absorption strategy was deployed.

#### **Process school of thought:**

- Consistent with the process school, good management of the post-acquisition process is crucial to success. Drawing on Child et al (2001), this research agrees that there are three issues that need to be addressed during the post-acquisition process. These are the choice of integration mode, the degree and type of post-acquisition changes introduced, and the timing of these changes. To advance this theory put forward by Child et al. (2001), the current researcher suggests that 1) the communication of these changes and 2) understanding and managing cultural differences, interactions and influences should be added to the equation.
- Consistent with Angwin (1998), selecting the right timing for the post-acquisition changes is crucial to the post-acquisition success. This study suggested that the acquired firms readily accepted post-acquisition changes when the acquired management and the employees realised that they needed to make the changes on their own. When changes were forced upon them, resistance was much higher.



- Contrary to the argument that M&As are ‘dead on arrival’ no matter how they are managed (Sirower, 1997), this study found that as time passes, the integration efforts become easier as obstacles are managed more sensitively along the way. In addition, gaining experience of managing M&As seemed to have an impact on later M&As conducted by the same firm.

### ***12.1.3 Methodological contribution***

In terms of methodological contribution, there is a unique selling point for this research. There are very few cross-border M&As studies taking into account both the acquiring and the acquired firms’ views, because of the difficulty in gaining company-access, and funding to carry out the research. In this study, the author managed to overcome these two obstacles.

After a long search process of almost eighteen months, the researcher gained exclusive access to one large American MNE in the automotive supplier industry. The researcher was provided full-access to its American and European headquarters sites and their acquired subsidiaries’ sites in Germany, France and Sweden. This access allowed the researcher to gather both ‘sides of the M&A story’ by personally interviewing the management and employees who were involved in the post-acquisition process. Interesting insights into the ‘us versus them’ attitudes and their perceptions of the post-acquisition process were gathered.

The author managed to travel to the sites in US and Europe to conduct the data collection because she obtained travel funding of £2000 from The Carnegie Trust for the Universities of Scotland.

### ***12.1.4 Conceptual contribution***

An important finding of this research is that the post-acquisition phase is not a simple phase. In fact, the findings seem to suggest that there are very distinguishable sub-phases and these have been identified and included into the theoretical framework. This framework charted the sub-phases and provided insight into the changes and



actions carried out by the acquiring firm and the ensuing behaviour of the employees. By charting the sub-phases, the reader is able to anticipate certain behavioural patterns of employees and relevant management solutions for each post acquisition sub-phase.

In addition, the multi-dimensional cultural interface developed from the literature has been supported by the findings of the research. It displayed the complex interactions of national culture and organisational culture on the post-acquisition process. It discussed the strength of the influences the cultural dimensions on each post-acquisition phase and how to deal with it. This interface tried to bridge the gap in the literature that often focused on either organisational culture or national culture in M&A studies, but seldom both.

#### ***12.1.5 Managerial contribution***

The findings of the research seem to have three important implications for practitioners planning M&As or dealing with problems created by these arrangements. This research emphasises the importance of situation-specific knowledge and understanding of the different types of (often-underlying) cultural settings related to the post-acquisition process.

Firstly, the research demonstrated how difficult it is to succeed in achieving the synergistic or other benefits sought. Secondly, the research underlined that cultural tensions were very much part of the post-acquisition process. The results stressed the importance of critical attitude toward cultural differences. It seemed imperative to consider not only the organisational cultural differences but also the national cultural influences in the development of a management strategy for the post-acquisition process.

Thirdly, the research suggested that the use of specific 'integration mechanisms' might be helpful in coping with the cultural and organisational problems that are bound to emerge (Larsson, 1990; and Olie, 1994).



## 12.2 LIMITATIONS OF THIS RESEARCH

### ▪ **Reliance on case study approach**

This research uses a case study approach. Since case studies do not rely on statistical analyses of aggregate data, no set of cases, irrespective of its size, can be reasonably generalised to a larger universe (Yin, 1994).

In other words, this approach only permits one to generalise a particular set of empirical evidence on the interactions of national and organisational cultures on cross-border M&As within the context of the research problem focused in this study.

### ▪ **Historical event: Difficulty of tracking involved personnel**

It was difficult to interview all employees that were involved in the M&A that took place in the 1990s. This was due to the natural turnover over the years, with so many employees having left the acquired companies. Nevertheless, the author managed to interview all remaining employees in the acquiring and acquired firms and gathered their 'stories' of the post-acquisition process. In addition, the author triangulated the interview data with archived documents on the M&A, personal observations and the analysis of the returned questionnaires. These steps were taken to overcome the limitations faced in this study.

In future, studies should try to gain entry to study the post-acquisition process from the time of the deal and continue for several years to analyse further the cultural influences on the post-acquisition process.

## 12.3 RECOMMENDATIONS FOR FUTURE RESEARCH

Considerable attention was paid to the time dimension in this study. Cross-border events were analysed longitudinally for patterns or stages in the post-acquisition process such as the development of the post-acquisition changes and employee behaviour in the acquired firms from their transfer of ownership to the date of this study. Analysis of the study resulted in an important finding - that the post-



acquisition process is sub-divided into different phases and the cultural influences, post-acquisition changes and employee behaviour varied in each phase.

However, the researcher acknowledges that considerably more work needs to be done in the following areas:

1. On the causal factors associated with the issue of trust vs. autonomy between the acquirer and the acquired firm. These are seen in the following propositions:

*Proposition 1:* High levels of trust between acquirer and acquired subsidiary will lead to an easier post-acquisition management process.

*Proposition 2:* The wider the cultural differences between the acquirer and the acquired firm, the more difficult it is to gain trust and cooperation in the acquired subsidiary.

2. An interesting issue which seemed to emerge in this study was that M&As lead to a decline in the entrepreneurship in the acquired firm. According to the current researcher's knowledge, this seems to be an entirely new area of research that needs to be investigated. The notion could be further tested either with more case studies or empirically.

*Proposition 3:* As the small-acquired firm grows through the M&As strategy, the firm loses its entrepreneurial characteristics.

*Proposition 4:* The acquirer (an MNE) can successfully inject corporate entrepreneurship through its M&A strategy.

3. Also, since the study was limited to one multinational enterprise and four of its M&As into three European countries. There is considerable scope for follow-up studies of a qualitative nature to determine the cultural interactions and influences in other countries.



4. Other propositions for further research include:

*Proposition 5:* Autonomy for post-acquisition management preferable in certain countries and not in others.

*Proposition 6:* The more autonomy is provided to the acquired firm, the more successful the acquisition would be.

*Proposition 7:* Post-acquisition changes are more easily acceptable by the acquired firm when they are 'guided' and not 'forced' to make the changes.

### 12.3 CONCLUSIONS

The aim of this thesis was to examine *the interactions of national and organisational cultures during the cross-border post-acquisition process with the intention of identifying the relevant factors that influence post-acquisition behaviour and performance.*

Analysis of the case studies and survey suggested that national culture and organisational culture interact to influence the post-acquisition behaviour and performance of the acquired firm. The thesis advanced the current literature by integrating the concepts of both national and organisational cultures in a longitudinal study of cross-border M&As, and by incorporating the interactions and influences at various post-acquisition phases.

The study was exploratory in nature and looked into an area where the literature was under-developed, considering the rising importance of the cross-cultural nature of companies today. The most important contribution of this research was the development of a cultural integration strategy that could be applied to the different types of M&As: domain strengthening and extension.

The other major contribution of this research is that the researcher conducted her fieldwork study at both the acquirer and the acquired sites, providing valuable



conflicting data on the cultural problems that were encountered during the post-acquisition process.

This thesis concluded by formulating a number of propositions for future qualitative to empirical research, based on the findings of this study.



**PART 6:**  
**ACCOMPANYING MATERIAL**



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## Appendix 1: Sample of the survey questionnaire



THE  
UNIVERSITY OF  
STRATHCLYDE  
GLASGOW



Strathclyde  
International  
Business Unit

February/March/September 2002

First Automotive

Dear valued employee,

As part of my research on First Automotive Systems acquisition strategy into Europe, I am conducting a mini survey on First Automotive's employees. The survey evaluates your opinions on work attitudes and your experience of working in the company. I would appreciate it very much if you could spare 5 to 7 minutes of your time to fill in this short questionnaire.

*Thank you for taking your time to complete this questionnaire. Your effort is very much appreciated.*

Yours sincerely,

Penelope Quah  
Doctoral Researcher, Strathclyde Business School  
[penelope.quah@strath.ac.uk](mailto:penelope.quah@strath.ac.uk), Tel.: 44 776 4184215

## ATTITUDES SURVEY

People differ in what is important to them in a job.

Section A, I have listed a number of factors which people might want in their work. I am asking you to indicate how important each of these is to you. Try to think of factors that would be important to you in an ideal job; disregard the extent to which they are contained in your present job.

Section B asks you to evaluate the level of managerial support you get from working in First Automotive.

Section C asks you to provide some personal details that will be kept *strictly anonymous*.



**SECTION A: ABOUT YOUR GOALS** (Please circle your response on the scale below)

**How important is it to you to**  
*(1 for very important; 5 for not at all important):*

Have a job which leaves you sufficient time for your personal or family life	1	2	3	4	5
Have considerable freedom to adopt your own approach to the job	1	2	3	4	5
Have challenging work to do – work from which you can achieve a personal sense of accomplishment	1	2	3	4	5
Have training opportunities (to improve your skills or learn new skills)	1	2	3	4	5
Have good physical working conditions (good ventilation and lighting, adequate work space etc.)	1	2	3	4	5
Fully use your skills and abilities on the job	1	2	3	4	5
Have an opportunity for high earnings	1	2	3	4	5
Get the recognition you deserve when you do a good job	1	2	3	4	5
Have an opportunity for advancement to higher level jobs	1	2	3	4	5
Have a good working relationship with your direct superior	1	2	3	4	5

Work with people who cooperate well with one another

1	2	3	4	5
---	---	---	---	---

Live in an area desirable to you and your family

1	2	3	4	5
---	---	---	---	---

Have the security that you will be able to work for your company as long as you want to

1	2	3	4	5
---	---	---	---	---

**SECTION B: YOUR WORKING EXPERIENCE AND MANAGERIAL SUPPORT**

**1. How would you rate First Automotive on the following? (Please circle your response on the scale below)**  
*(1 for Excellent; 5 for Poor)*

Listening to your problems/complaints	1	2	3	4	5
Providing you timely/accurate information	1	2	3	4	5
Encouraging suggestions for improvement from you	1	2	3	4	5
Providing training so that you can learn new skills and develop your talents	1	2	3	4	5
Having enough qualified people to do the work in your area	1	2	3	4	5
Doing something about your problems/complaints	1	2	3	4	5
Treating employees fairly and consistently	1	2	3	4	5
The level of competence of senior management	1	2	3	4	5



The ability of top management in your department

1

2

3

4

5

Treating employees with respect as individuals

1

2

3

4

5

2. In your opinion, what issues need to be addressed by your management that have not yet been considered or acted upon? (Tick as appropriate)

- ☐ Communications
- ☐ Policy issues
- ☐ Employee morale
- ☐ Compensation

3. How do you rate First Automotive as a company to work for now compared with when you first started working here? (Please tick one)

- ☐ It's better now
- ☐ It's about the same
- ☐ It is not as good now

4. Please rate the managerial support you receive. (Please circle your response on the scale below)  
(1 for Always; 5 for Never at all)

How frequently, in your experience, are employees afraid to express disagreement with their managers?

1

2

3

4

5

How frequently would you say your immediate manager insists that rules and procedures are followed?

1

2

3

4

5

How frequently do you feel nervous or tense at work?

1

2

3

4

5

5. Below are four scenarios describing four different types of managers.

First, please read through these scenarios:

Manager 1

Usually makes his / her decisions promptly and communicates them to his / her subordinates clearly and firmly. Expects them to carry out the decision loyally and without raising difficulties.

Manager 2

Usually makes his / her decision promptly, but, before going ahead, tries to explain them fully to his / her subordinates. Give them the reasons for the decisions and answers whatever questions they may have.

Manager 3

Usually consults with his/her subordinates before he / she reaches his / her decisions. Listens to their advice, considers it, and then announces his/her decision. He / She then expects all to work loyally to implement it whether or not it is in accordance with the advice they gave.

Manager 4

Usually calls a meeting of his / her subordinates when there is an important decision to be made. Puts the problem before the group and tries to obtain consensus. If he / she obtains consensus, he / she accepts this as the decision. If consensus is impossible, he / she usually makes the decision him / herself.

Second, please tick the appropriate scenario that best suits you.

	Manager 1	Manager 2	Manager 3	Manager 4	None at all
Whom would you prefer to work under?					
Which would you say your own manager most closely corresponds?					



**SECTION C: GENERAL INFORMATION**

1. Please tick as appropriate ☐ Female ☐ Male
2. From the following, please indicate to which age group you belong?  
☐ Under 25 years ☐ 25-30 years ☐ 31-40 years ☐ 41-50 years  
☐ Over 50 years
3. Please indicate your highest level of education attained (Please tick one).  
☐ High school ☐ Postgraduate degree  
☐ Apprenticeship ☐ Professional qualification  
☐ Undergraduate degree ☐ Others (please specify) \_\_\_\_\_
4. Which country are you located in? (Please tick one)  
☐ France ☐ Germany ☐ Sweden
5. Which department do you belong to?  
☐ Finance ☐ Human Resource ☐ Production/Manufacturing  
☐ Marketing ☐ Others (Please specify) \_\_\_\_\_
6. How long have you been employed by this company? (Please tick one)  
☐ Less than 3 years ☐ 7 to less than 9 years  
☐ 3 to less than 5 years ☐ 9 to less than 11  
☐ 5 to less than 7 years ☐ Longer than 11 years
7. How long do you think you will continue working for this company?  
(Please tick one)  
☐ 2 years at most ☐ More than 5 years  
☐ From 2 to 5 years ☐ Until I retire



Appendix 2: Interview contact summary form

Interview Contact Summary Form

Site: \_\_\_\_\_

Interviewee: \_\_\_\_\_

Position: \_\_\_\_\_

☐ Tape-recorded

Contact date: \_\_\_\_\_

Today's date: \_\_\_\_\_

Written by: \_\_\_\_\_

☐ Not tape-recorded

1. How did the interview receive me?

2. What were the main issues or themes that struck you in this contact?

3. How did the interview react to the questions? Was there any eye-contact or other body behaviour that struck me during the interview?

4. What happened at the end of the interview?

Source: Author



Appendix 3: Observation summary form

Observation Summary Form

Site:

Date:

1. Architectural design of building
2. Office layout
3. Art objects in reception area and around the offices
4.Dress code and demeanour of management
5. Dress code and demeanour of employees
6. Employee behaviour towards managers
7. Manager behaviour towards employees

Source: Author



Appendix 4: Goal and value alignment dimension

	Short vs. long term (10)	Results oriented (10)	Strength of company history	Multi-task environment (10)	Customer orientation	Mean score for this dimension
First Automotive	3.00	3.00	4.00	3.00	7.00	4.00
German Security	4.00	4.00	7.00	2.00	8.00	5.00
French Security	8.00	8.00	6.50	8.00	7.50	7.90
Swedish Consultancy	6.50	7.50	8.50	8.50	8.00	7.50
German Antenna	4.00	3.50	6.00	6.00	8.50	4.80

Where,

0 represents large MNE characteristics

10 represent small entrepreneurial characteristics



Appendix 5: Structures and controls dimension

	Managers insist rules are followed (0 for never at all, 10 for always)	Current managerial style (0 for abdicating, 10 for autocratic)	<i>Transformed mean</i>	Personal observations of centralised vs. decentralised structure (10 for centralised)	Personal observations of high vs. low standardisation (10 for high)	Process-oriented (10 for high)	Mean score for this dimension
<b>First Automotive</b>							
Mean	8.73	6.63	7.68	9.00	10.00	10.00	9.17
N.	41	41					
Std. deviation	1.988	2.165					
<b>German Security</b>							
Mean	8.37	6.0526	7.21	7.00	6.50	5.50	6.55
N.	38	38					
Std. deviation	1.667	2.525					
<b>French Security</b>							
Mean	7.47	8.00	7.73	8.00	2.50	3.00	5.31
N.	15	15					
Std. deviation	2.446	1.852					
<b>Swedish Consultancy</b>							
Mean	7.91	5.91	6.91	2.50	2.00	1.50	3.23
N.	22	22					
Std. deviation	1.797	1.797					
<b>German Antenna</b>							
Mean	8.37	6.0526	7.21	6.00	6.00	6.50	6.43
N.	38	38					
Std. deviation	1.667	2.525					

Where,

0 represents: Not structured, informal, low controlled characteristics;  
10 represent: Highly structured, formal, highly controlled characteristics



Appendix 6: Leadership orientation

	Level of competence of senior management (0 for excellent, 10 for poor)	Ability of top management (0 for excellent, 10 for poor)	Employees feel nervous at work (0 for never at all, 10 for always)	Employees are afraid of manager (0 for never at all, 10 for always)	Current manager (0 for abdicate, 10 for autocratic)	Transformed mean	Personal observations (0 for closed door & formal)	Mean score for this dimension
<b>First Automotive</b>								
Mean	5.80	5.12	8.15	7.12	6.63	6.57	3.00	4.78
N.	41	41	41	41	41			
Std. deviation	1.990	1.952	1.811	2.410	2.165			
<b>German Security</b>								
Mean	5.42	4.05	7.42	7.42	6.05	6.07	8.00	7.04
N.	38	38	38	38	38			
Std. deviation	1.536	1.770	2.274	2.367	2.525			
<b>French Security</b>								
Mean	5.33	4.27	7.60	7.07	8.00	6.45	9.50	7.98
N.	15	15	15	15	15			
Std. deviation	2.093	1.486	1.724	1.486	1.852			
<b>Swedish Consultancy</b>								
Mean	5.09	4.91	6.36	6.09	5.91	5.67	1.00	3.34
N.	22	22	22	22	22			
Std. deviation	1.601	1.716	2.937	3.054	1.797			
<b>German Antenna</b>								
Mean	5.42	4.05	7.42	7.42	6.05	6.07	7.50	6.79
N.	38	38	38	38	38			
Std. deviation	1.536	1.770	2.274	2.367	2.525			

Where,

0 represents: Abdicate leadership characteristics;

10 represent: Autocratic leadership characteristics



Appendix 7: Communication style dimension

	Listens to problems and complaints (0 for excellent, 10 for poor)	Provides timely information (0 for excellent, 10 for poor)	Encourages suggestions for improvements (0 for excellent, 10 for poor)	Treats employees fairly and consistently (0 for excellent, 10 for poor)	Transformed mean	Timing of communication (10 slow)	Centralised communication system	Cool reserved is admired	Mean score for this dimension
<b>First Automotive</b>									
Mean	6.39	6.39	6.00	5.76	6.14	8.00	7.00	4.00	6.34
N.	41	41	41	41					
Std. deviation	1.745	1.909	1.897	1.959					
<b>German Security</b>									
Mean	5.79	5.37	4.84	4.58	5.15	4.50	7.50	8.00	6.37
N.	38	38	38	38					
Std. deviation	1.379	1.478	1.838	1.464					
<b>French Security</b>									
Mean	6.93	6.00	5.47	6.00	6.10	6.50	8.00	2.00	5.72
N.	15	15	15	15					
Std. deviation	1.981	2.000	1.598	2.390					
<b>Swedish Consultancy</b>									
Mean	4.82	5.00	5.18	4.73	4.93	1.00	4.00	6.00	4.04
N.	22	22	22	22					
Std. deviation	1.593	1.345	1.708	1.695					
<b>German Antenna</b>									
Mean	5.79	5.37	4.84	4.58	5.15	4.00	7.00	8.00	6.12
N.	38	38	38	38					
Std. deviation	1.379	1.478	1.838	1.464					

Where,

0 represents: Informal and less structure style;

10 represent: Formal and structured style



Appendix 8: Interpersonal relations dimension

	Listens to problems and complaints (0 for excellent, 10 for poor)	Treats employees fairly and consistently (0 for excellent, 10 for poor)	Treat employees with respect as individuals (0 for excellent, 10 for poor)	Working environment as a whole (0 for excellent, 10 for poor)	<i>Transformed mean</i>	Customer orientation (0 for high, 10 for low)	Relationship between employer and employee (10 for weak or distant)	Mean score for this dimension
<b>First Automotive</b> Mean N. Std. deviation	6.39 41 1.745	5.76 41 1.959	5.61 41 2.290	3.02 41 3.110	5.20	3.00	7.00	5.07
<b>German Security</b> Mean N. Std. deviation	5.79 38 1.379	4.58 38 1.464	4.05 38 1.432	2.29 38 1.250	4.18	2.00	5.00	3.73
<b>French Security</b> Mean N. Std. deviation	6.93 15 1.981	6.00 15 2.390	4.40 15 2.165	1.87 15 .640	4.80	4.00	1.00	3.27
<b>Swedish Consultancy</b> Mean N. Std. deviation	4.82 22 1.593	4.73 22 1.695	4.55 22 2.154	2.45 22 1.920	4.14	2.00	3.00	3.05
<b>German Antenna</b> Mean N. Std. deviation	5.79 38 1.379	4.58 38 1.464	4.05 38 1.432	2.29 38 1.250	4.18	1.50	4.00	3.23

Where,

0 represents excellent interpersonal relations; 10 represent poor interpersonal relations



Appendix 9: Motivation/staffing/training dimension

	Provides training (0 for excellent, 10 for poor)	Have enough qualified people to do the job (0 for excellent, 10 for poor)	Does something about problems (0 for excellent, 10 for poor)	<i>Transformed mean</i>	Complaints of low motivation during interviews (0 no complaints, 10 for a lot)	Mean score for this dimension
<b>First Automotive</b>						
Mean	5.66	6.39	6.68	6.24	3.00	4.62
N.	41	41	41			
Std. deviation	2.045	2.108	1.650			
<b>German Security</b>						
Mean	4.37	4.53	5.95	4.95	7.50	6.23
N.	38	38	38			
Std. deviation	1.384	1.899	1.432			
<b>French Security</b>						
Mean	5.20	5.60	7.07	5.96	8.00	6.98
N.	15	15	15			
Std. deviation	1.971	3.043	2.251			
<b>Swedish Consultancy</b>						
Mean	6.09	4.27	5.64	5.33	4.50	4.92
N.	22	22	22			
Std. deviation	1.571	1.420	2.013			
<b>German Antenna</b>						
Mean	4.37	4.53	5.95	4.95	3.50	4.23
N.	38	38	38			
Std. deviation	1.384	1.899	1.432			

Where, 10 represent high level of de-motivation, poor staffing, and little training



Appendix 10: Individualism vs. collectivism dimension

	Importance of having time for family (0 for not at all, 10 for extremely important)	Freedom in job (0 for not at all, 10 for extremely important)	Challenging work environment (0 for not at all, 10 for extremely important)	Training opportunities (0 for extremely important, 10 for not at all)	Good physical working conditions (0 for extremely important, 10 for not at all)	Fully use skills in job (0 for extremely important, 10 for not at all)	<i>Transformed mean</i>	Organisation is impersonal (10)	Task prevail over relationships (10)	Mean score for this dimension
<b>US</b>										
Mean	9.56	8.44	9.37	3.90	3.37	3.02	6.28	7.00	7.00	6.76
N.	41	41	41	41	41	41				
Std. dev	1.14	1.315	.942	1.60	1.22	1.27				
<b>Germany</b>										
Mean	8.16	8.47	9.05	3.42	3.42	3.11	5.94	6.00	8.00	6.65
N.	38	38	38	38	38	38				
Std. dev	1.569	1.18	1.01	1.39	1.61	1.20				
<b>France</b>										
Mean	7.87	8.40	8.27	4.13	3.47	3.73	5.98	3.00	2.00	3.66
N.	15	15	15	15	15	15				
Std. dev	2.07	1.72	1.49	2.20	1.77	1.28				
<b>Sweden</b>										
Mean	8.00	8.55	9.27	3.27	3.82	3.55	6.08	1.00	2.00	3.03
N.	22	22	22	22	22	22				
Std. dev	1.85	1.54	1.16	1.45	1.62	1.74				

Where,

0 represents a collectivist society; and 10 represent an individualistic society



Appendix 11: Language dimension

	Cool reserve (10)	Neutral vs. affective (10 for neutral)	Fluency of English (0 for fluent, 10 for not fluent)	Use of titles (10 for high usage)	Mean score for this dimension
US	0.00	5.00	0.00	2.00	2.75
Germany	2.00	8.00	4.00	7.00	6.75
France	8.00	4.00	8.00	8.00	5.50
Sweden	1.00	7.00	2.00	3.50	4.63

Where, 0 represents a neutral society; and 10 represent an affective society



Appendix 12: Time orientation dimension

	Length of employment (10 for long)	Intention to stay in employment in the same firm (10 for long)	Transformed mean	Multi-task environment (0 for non multi-task)	Time measurable (0 for non-measurable)	Mean score for this dimension
<b>US</b>						
Mean	5.66	6.73	6.20	3.00	2.00	3.73
N.	41	41				
Std. dev	1.67	2.04				
<b>Germany</b>						
Mean	4.16	4.16	4.16	2.00	1.00	2.39
N.	38	38				
Std. dev	2.34	2.52				
<b>France</b>						
Mean	3.60	4.13	3.87	8.00	8.00	6.62
N.	15	15				
Std. dev	2.77	2.07				
<b>Sweden</b>						
Mean	4.27	5.55	4.91	8.00	6.00	6.30
N.	22	22				
Std. dev	2.34	1.85				

Where,

0 represents short-term view; and

10 represent long-term view



Appendix 13: Tolerance to uncertainty and other cultures dimension

	Job security (0 for very important)	Managers insist rules are followed (0 for always insist)	Intention to stay in employment in the same firm (0 for intention to stay until retirement)	<i>Transformed mean</i>	Sensitivity to other cultures (10 for very sensitive)	Tolerance to new ideas (10 for high)	Willingness to take risks (0 for low)	Willingness to change or adapt to other cultures (10 extremely willing)	Mean score for this dimension
<b>US</b>									
Mean	2.93	3.27	4.00	3.40	1.00	6.00	5.00	2.00	3.48
N.	41	41	4						
Std. dev	1.35	1.99	.00						
<b>Germany</b>									
Mean	3.77	3.63	5.23	4.20	4.50	3.50	2.00	5.00	3.84
N.	38	38	13						
Std. dev	1.69	1.67	1.92						
<b>France</b>									
Mean	4.93	4.53	5.82	5.09	3.00	2.00	3.50	3.00	3.32
N.	15	15	11						
Std. dev	2.12	2.45	2.09						
<b>Sweden</b>									
Mean	4.55	4.09	4.00	4.21	7.50	8.00	6.00	7.00	6.54
N.	22	22	6						
Std. dev	1.97	1.80	.00						

Where,

0 represents low tolerance to uncertainty and insensitive to other cultures; and

10 represent high tolerance to uncertainty and sensitive to other cultures



Appendix 14: Power orientation

	Preferred manager (0 abdicate, 10 for autocratic)	Afraid of managers (0 for never, 10 for always)	Feel tense at work (0 for never, 10 for always)	<i>Transformed mean</i>	Managerial dress codes (0 for informal, 10 for formal)	Respect for seniority (10 for high respect)	Use of titles (0 not used)	Mean score for this dimension
<b>US</b>								
Mean	5.80	7.12	8.15	7.02	2.00	2.00	2.00	3.26
N.	41	41	41					
Std. dev	1.17	2.41	1.81					
<b>Germany</b>								
Mean	5.16	7.42	7.42	6.67	6.00	4.00	8.00	6.17
N.	38	38	38					
Std. dev	1.44	2.37	2.27					
<b>France</b>								
Mean	5.60	7.07	7.60	6.76	7.00	7.00	8.00	7.19
N.	15	15	15					
Std. dev	1.35	1.49	1.72					
<b>Sweden</b>								
Mean	4.91	6.09	6.36	5.79	2.00	3.00	2.00	3.20
N.	22	22	22					
Std. dev	1.19	3.05	2.94					

Where,

0 represents low power orientation; and  
10 represent high power orientation



Appendix 15: Masculinity vs. femininity dimension

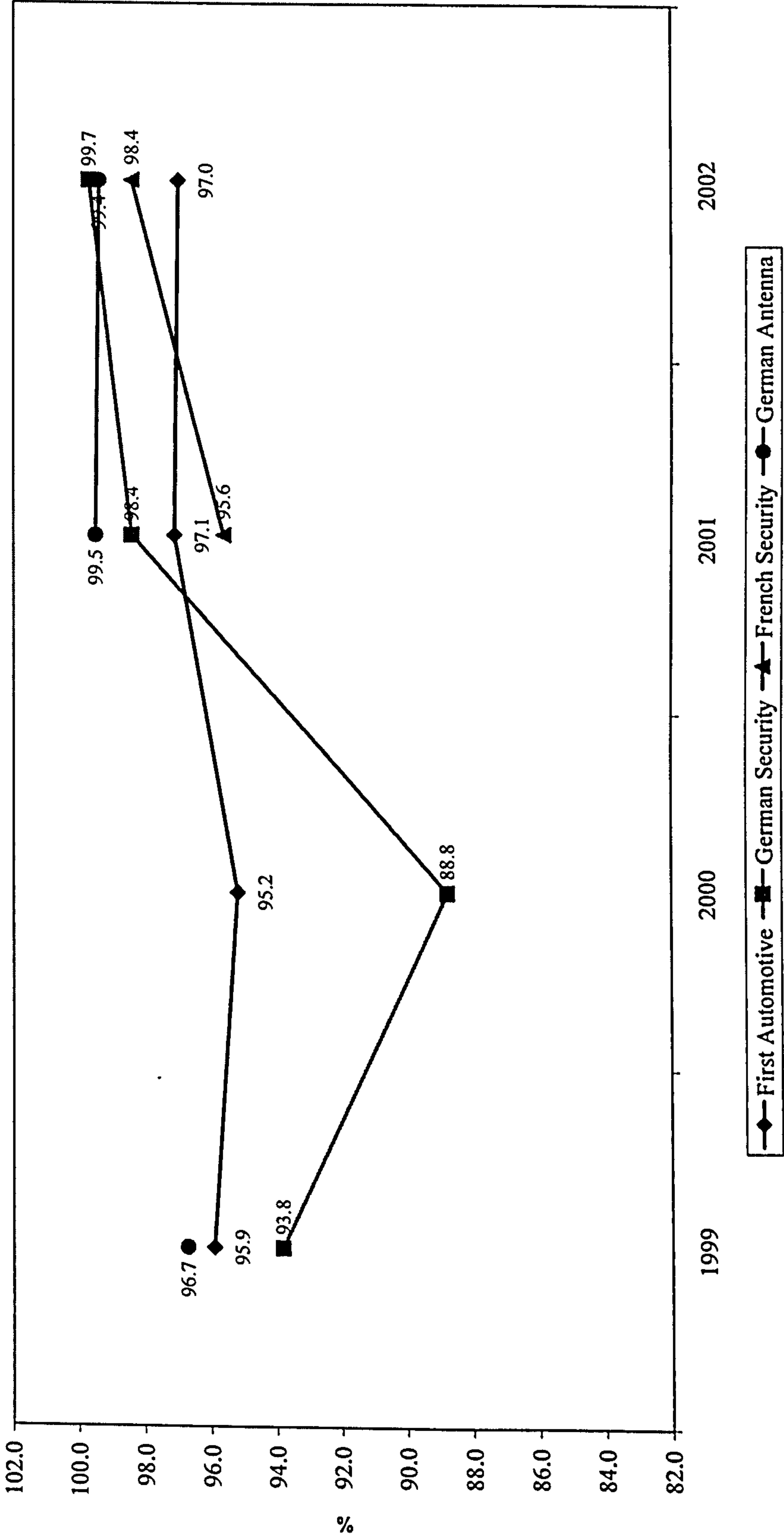
	Opportunity to earn high (0 for not at all, 10 for extremely important)	Get recognition in good work (0 for not at all, 10 for extremely important)	Opportunity to advance (0 for not at all, 10 for extremely important)	Good working relationship with superior (0 for not at all, 10 for extremely important)	Work with people who cooperate (0 for not at all, 10 for extremely important)	Live in an area desirable personally and for family (0 for not at all, 10 for extremely important)	Job security in company (0 for not at all, 10 for extremely important)	Transformed mean	Women in more qualified jobs (10 for fewer)	Aggressive & competitive (10 for high)	Mean score for this dimension
<b>US</b>											
Mean	2.98	3.02	3.22	8.98	8.73	9.02	9.07	6.43	5.00	5.00	6.48
N.	41	41	41	41	41	41	41				
Std. dev	1.275	1.193	1.541	1.275	1.323	1.193	1.349				
<b>Germany</b>											
Mean	3.95	3.63	4.79	8.47	8.95	8.79	8.26	6.69	8.00	6.00	6.90
N.	38	38	38	38	38	38	38				
Std. dev	1.506	1.532	1.891	1.428	1.207	1.277	1.688				
<b>France</b>											
Mean	4.13	4.13	3.33	8.40	8.27	8.40	7.07	6.25	8.50	7.00	6.25
N.	15	15	15	15	15	15	15				
Std. dev	1.598	1.922	1.447	1.352	2.120	2.293	2.120				
<b>Sweden</b>											
Mean	4.36	4.00	5.36	8.09	8.82	8.73	7.45	6.69	2.00	8.00	3.90
N.	22	22	22	22	22	22	22				
Std. dev	1.177	1.746	1.432	1.998	1.468	1.453	1.969				

Where,

0 represents a feminine society; and  
10 represent a masculine country

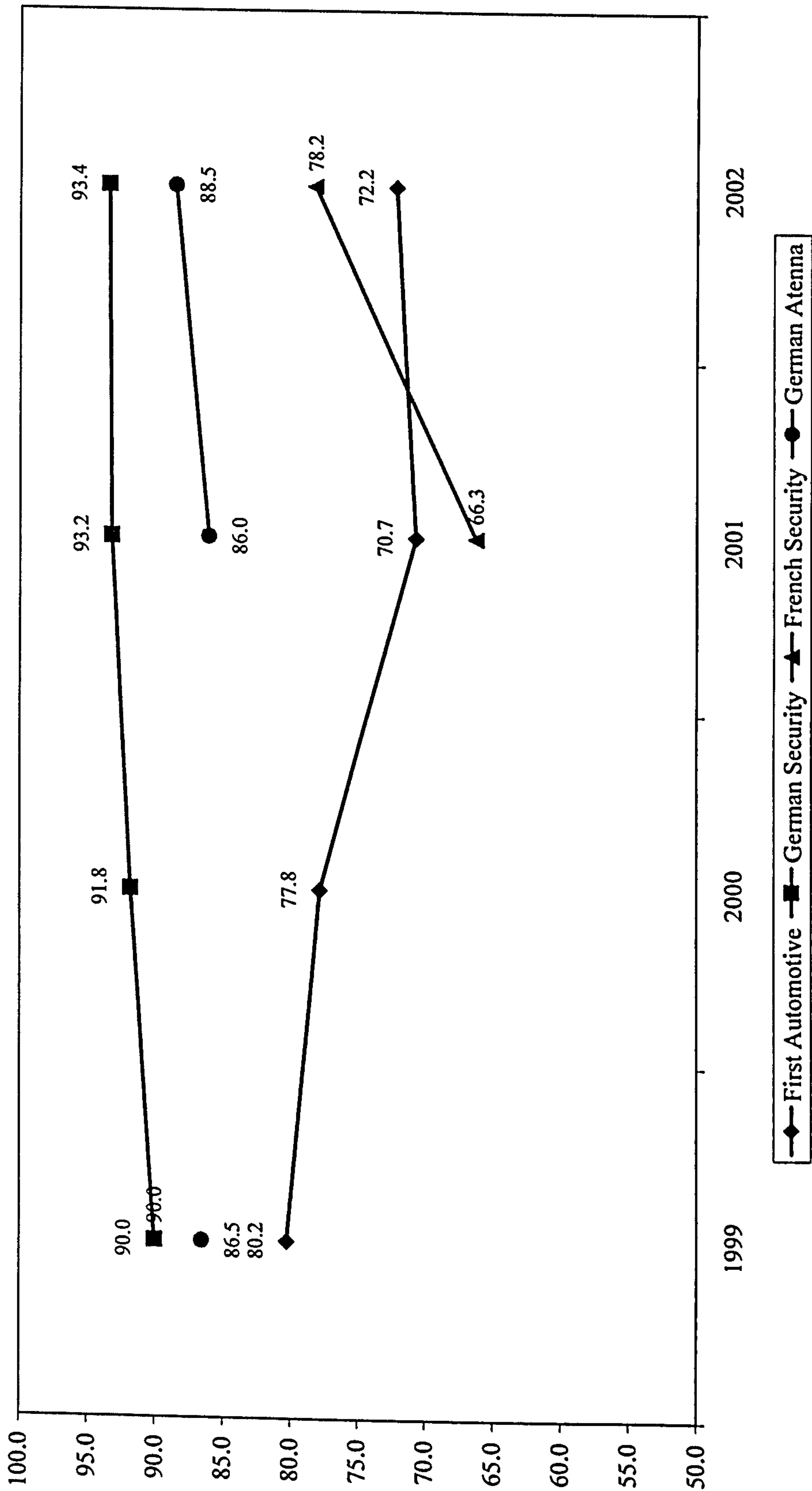


Appendix 16: Ship Window Compliance (Delivery): Target 100%



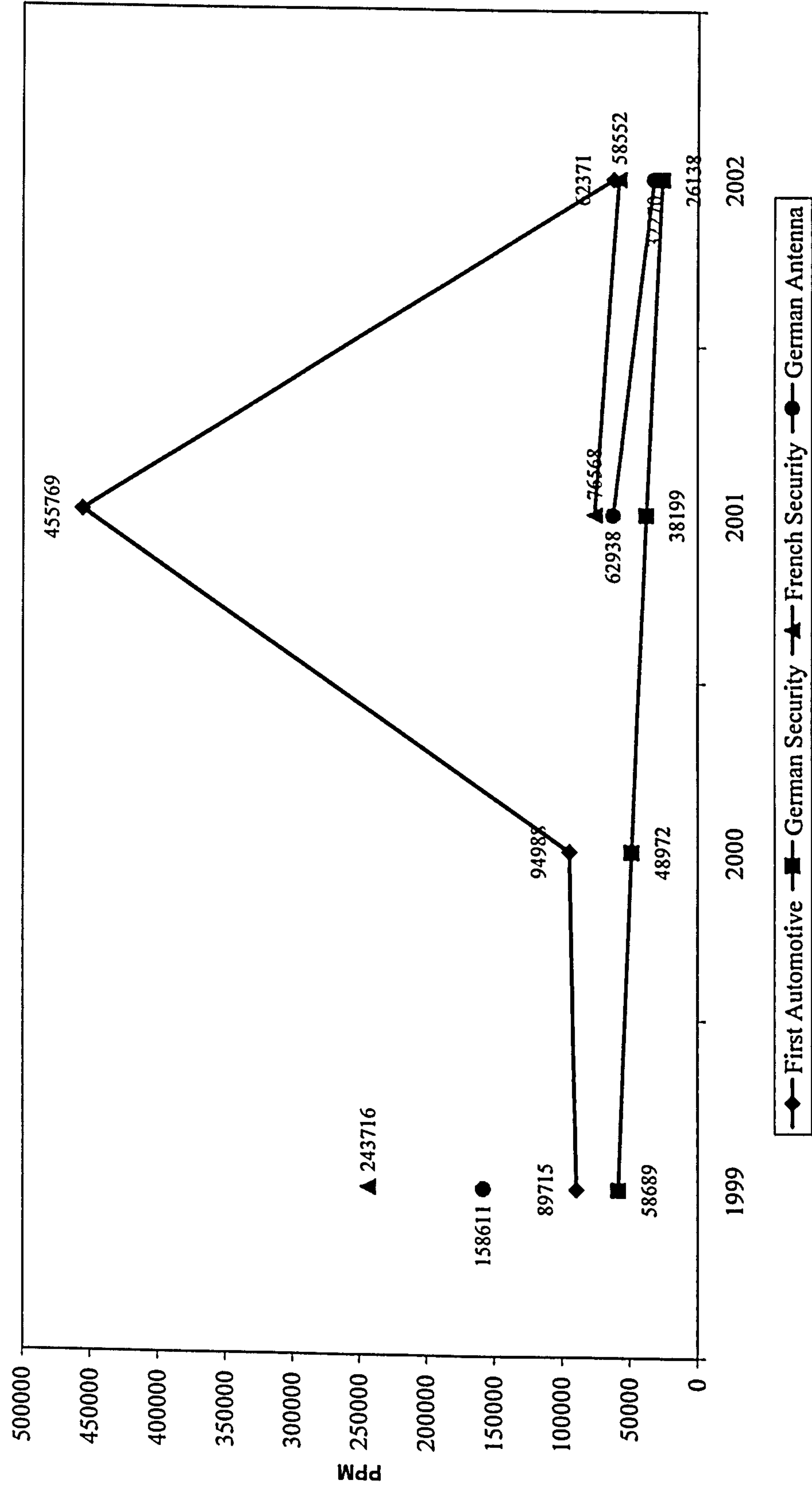


Appendix 17: Operational Availability: Target > 98%



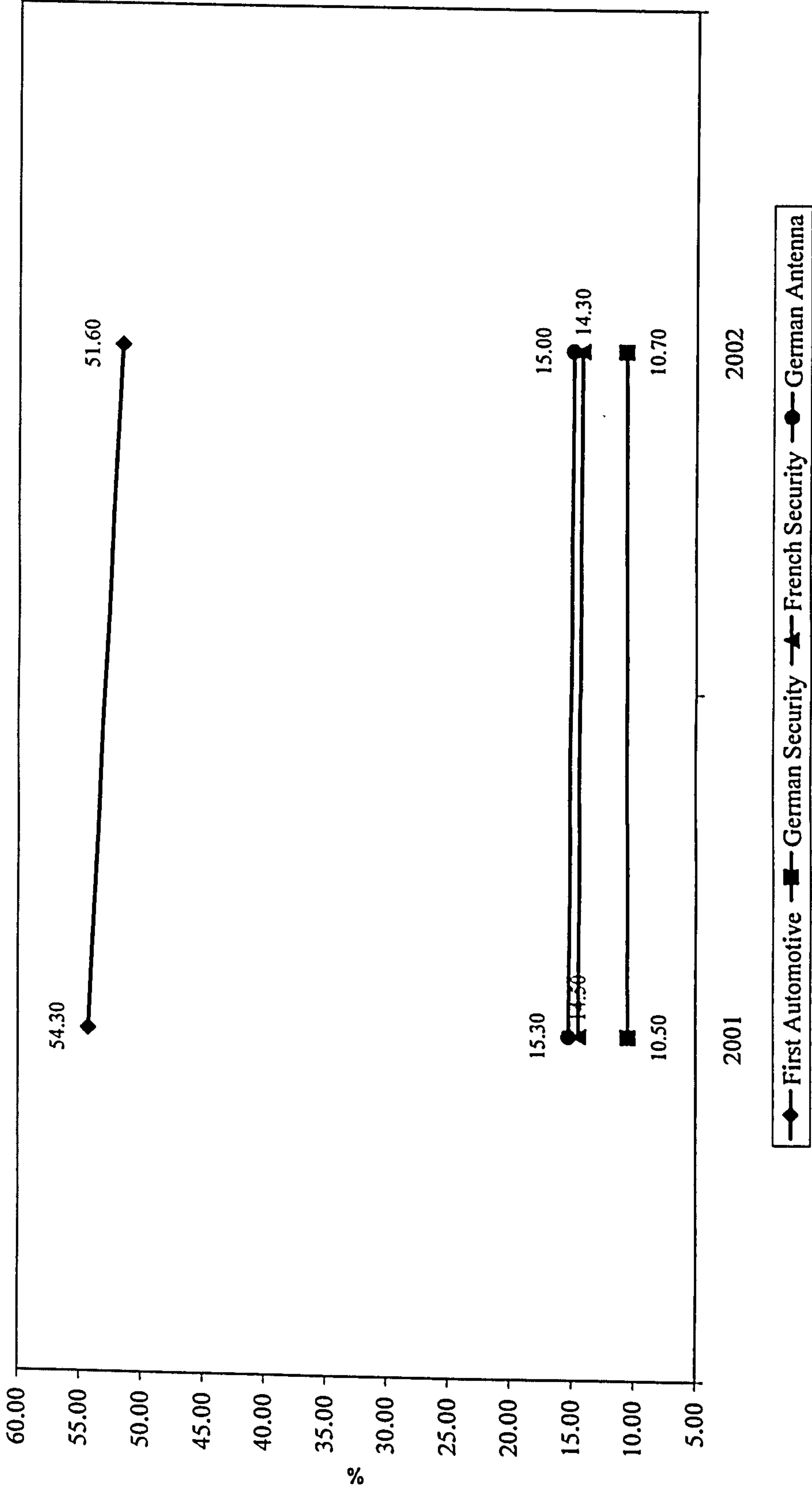


Appendix 18: First Time Quality: Target <20,000



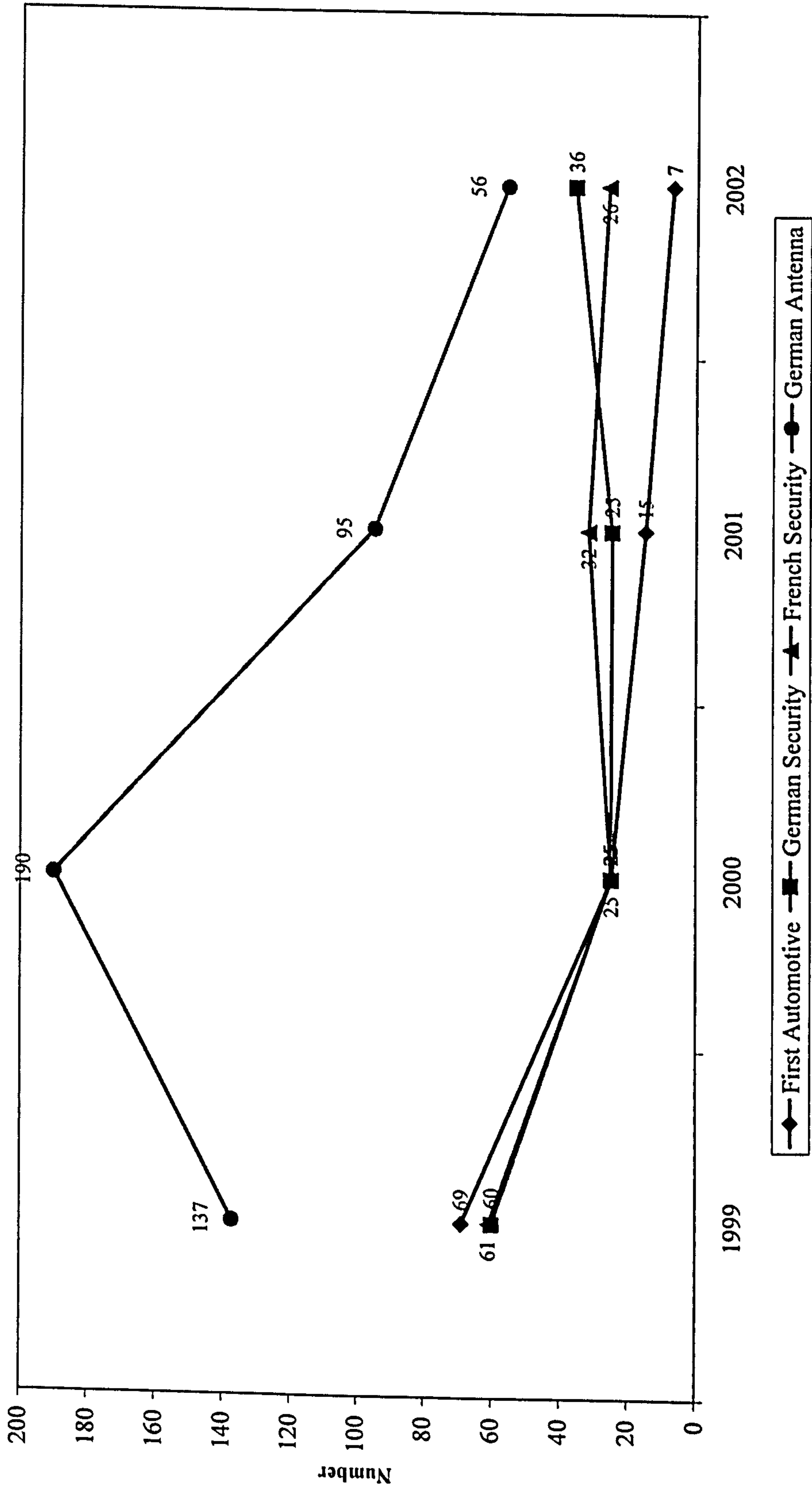


Appendix 19: Manufacturing expense % of sales: Target <20.5



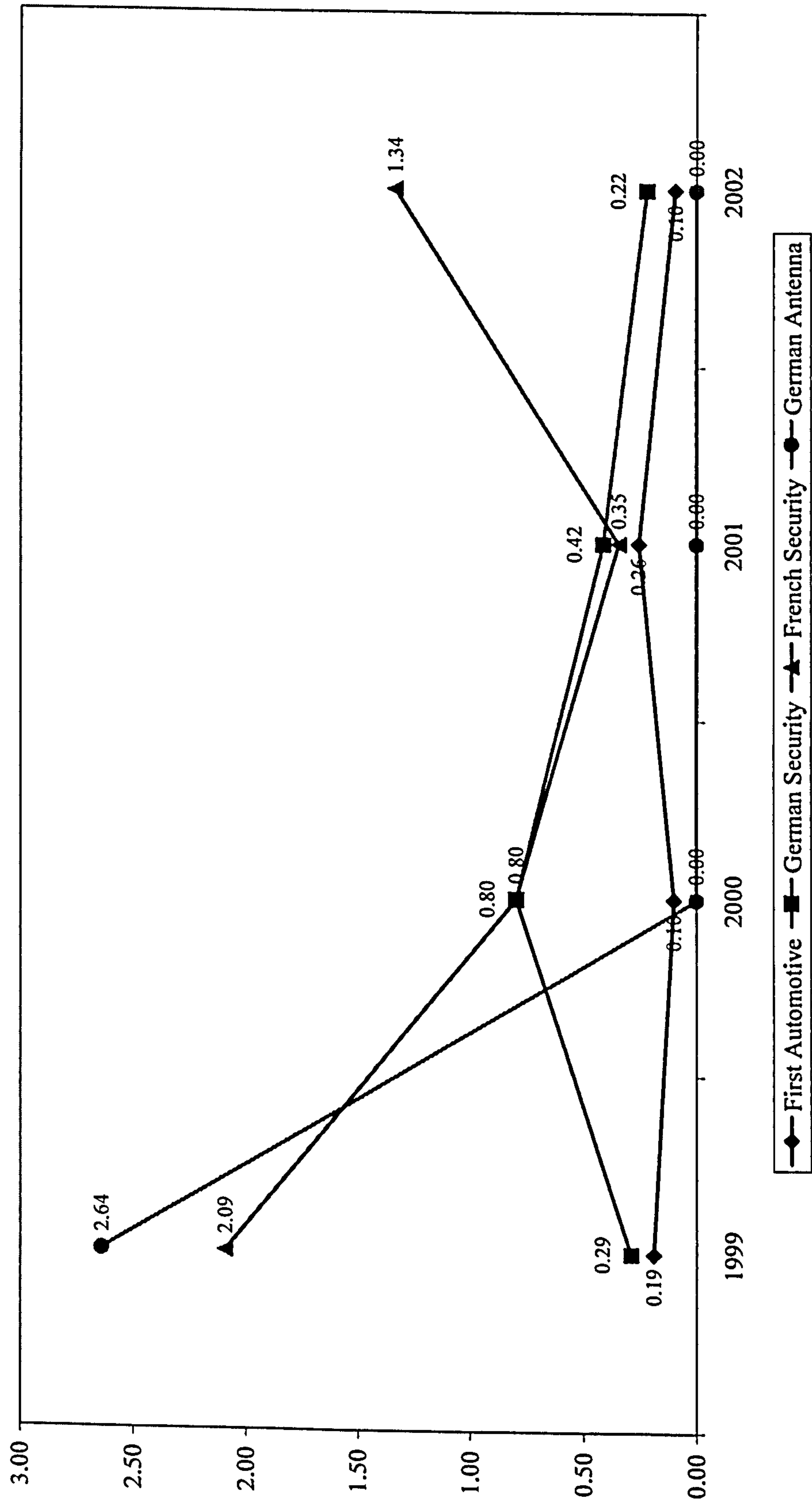


Appendix 20: Returned parts per million: Target <20





Appendix 21: Lost workday case (Safety levels): Target <0.15





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