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National Culture- The Antagonist in Post-Merger-Integration?

– The Influence of National Culture in the Post-Merger Integration Process in Cross-Border Mergers and Acquisitions –

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Abstract

Gert Hofstede was one of the first researchers who tried to incorporate culture as valid and measurable variable in organizational theory. In his book – *Culture's Consequences – International Differences in Work Related Values* – (1980), he described different cultural dimensions, such as *Power Distance*, *Masculinity* and *Uncertainty Avoidance*. Even though these classifications were -and still are- very critically discussed, they give a useful framing of the formerly vague concept of culture. With Hofstede's research culture became a more tangible variable in corporate considerations.

"Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster."[1] this quotation gives a good insight into the understanding of culture by Hofstede. Since the 1980's culture started to become more and more a strategic resource for corporations. The following research aims at identifying obstacles that companies operating on a global scale will encounter in their quest for globalization and market leadership. What adaptations will they have to make when merging with companies in distant countries and cultures, and how does this affect the understanding of the company and its employees in their national contexts?

The research is threefold and touches upon mergers and acquisitions, the post-merger integration and national and organizational culture concepts. In the course of the research, the foundation of merger and acquisition knowledge, such as motives for mergers and forms of acquisitions, were found to be of major importance to understand the dynamics. The research of cultural concepts showed that non -with a strict focus on national culture- was found to be applicable in the organizational context. Therefore, this thesis suggests combining the Acculturation Theory and the Social Identity Theory with certain influencing factors. The comparative study suggests that the findings can be applied to national culture phenomena.

Nevertheless, further research has to be undertaken to test and validate the proposed framework and its implications. A longitudinal case-based approached is suggested.

[1] http://www.geert-hofstede.com/

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Chapter 1 - Introduction

„The globalization of industries and the internationalization of companies leaves us with a paradox. It is tempting to conclude that the nation has lost its role in the international success of its firm. Companies, at first glance, seem to have transcended countries.“
Michael E. Porter, (Porter, 2011)

Globalization is one of the characterizing terms of the 21st century. The world becomes more connected, as telecommunications and Internet give access to the world from the remotest places at any time of the day or night. Globalization opens up the market place to all 7.1 billion people that live on this planet.
This is the simple calculation that an international company is confronted with when analysing its market reach and the customer base. While this is a very optimistic calculation, companies in nowadays indeed face a much broader and more widespread consumer audience. Additionally, access to information and in consequence, marketing, spreads the word about products and businesses. Finally, traveling is a major component with which companies gain recognition and reach consumers of different, new markets and create a demand for their products to be release in the respective home countries of the travelers. In 2012, the number of travelers worldwide surpassed the threshold of 1 billion.

Companies are increasingly building global presence. On the one hand, consumers, who are more knowledgeable about products, concepts and organizations that exist, trigger this development. On the other hand, companies realize the great potential to serve bigger markets and to maximise their market share in those markets.

Strategic combination is the mean to access foreign markets. Companies increasingly engage in mergers and acquisitions to enter those new markets and skim the opportunities of the new markets. As Porter suggested in the introductory statement, the lines between countries and companies are becoming increasingly blurry, which leads companies to almost have a state-like character. In this process of globalization and expansion, the focus should be narrowed back down to the individual: The individual, who is thrown from one culture into another culture, when companies decide to expand and acquire in new markets and on new continents.

1.1 Focus of the Thesis

The following research question will guide the thesis:

What influence does national culture have in the post-merger integration process of cross-border mergers and acquisitions?

The research question can be split up into three major parts. The three interdependent variables, which have to be investigate, are: national culture as element of culture, the post-merger integration process as part of the merger and acquisition [henceforth: M&A process and the difference of cross-border M&A in contrast to domestic mergers.
All these three parts will be touched upon in the course of the thesis. The visualization should help the reader to distinguish between the different components. Following, the motivation for each component is described. The order of the elements will be reversed, to emphasize the influence of the components between each other.

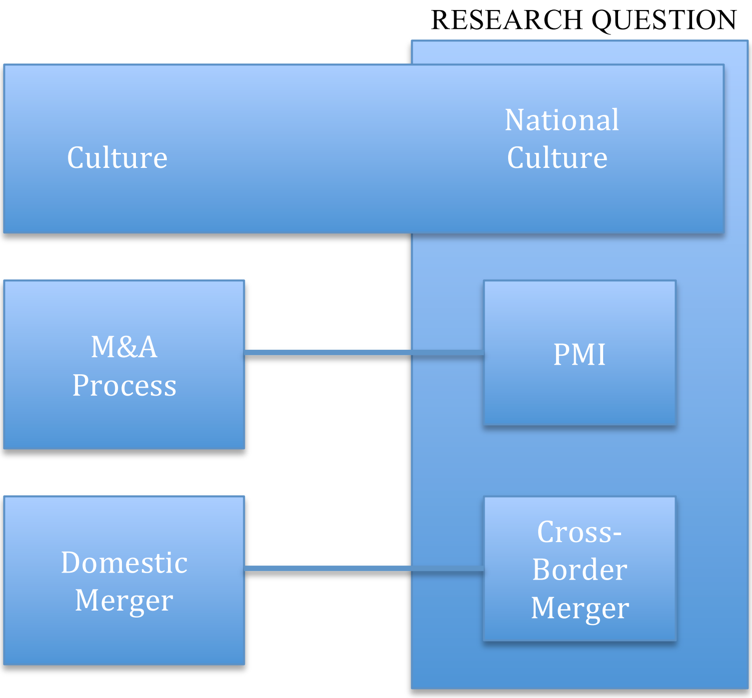

Figure 1: Overview of Research Question
Source: own illustration

The first component is national culture. Culture is touched upon in almost every field of research. It spans the classic business context, from finance to human resources, and branches out into social sciences in general. Likewise, it is studied in behavioural research, in psychology and in anthropology, just to mention some of the various arenas it receives attention in.

Considering the many different scientific perspectives to culture, it is no wonder that there is an innumerable amount of definitions of culture. The illustration above illustrates the difficulties in sharply defining the concept. They vary from 'culture being the human-made part of the environment (Herskovitz, 1955) to 'culture as a shared meaning system' (Sheweder and LeVine, 1984). A major study on national culture (GLOBE) defined it as values, beliefs, norms, and behavioural patterns of the national group', while the prime father of cultural research, Geert Hofstede, defines culture as 'the collective programming of the mind that distinguishes the members of one group or category of people from another'(Javidan, House, Dorfman, Hanges, & Sully de Luque, 2006).

While there is a common understanding in that culture matters, researchers and managers, have not given the appropriate attention to the influence of culture on the following two components, mergers and acquisition and the post-merger-integration process. Many managers, when asked for their opinion on culture in the merger and acquisition process, acknowledge that their attention was rather on the operational side of the integration. However, most managers also admit that culture was a major obstacle in the integration process and should in consequence receive more credit and consideration (Cartwright & Cooper, 1995).

This leads to the second component of the research question. The process of the merger or the acquisition should be discusses, however with a special focus on the post-merger integration. Although a cross-border merger or acquisition runs through the same steps as a domestic merger, there are special components which differ in the definition, the approach and motivation, and which finally have an impact on the post-merger integration. Especially in relation to culture and national culture, it is expected to show the most impact in this phase, while the other phases of the merger and acquisition process are assumed to be less or not at all affected.

The third component is the cross-border merger. This component is important, as around one third of worldwide mergers are combining companies from two different countries. With the ongoing globalization, the likelihood for this percentage to increase is very high. However, academic research majorly studies the domestic mergers, and has not yet reacted to this shift (Erel, Liao, & Weisbach, 2012). Furthermore, recent research shows that new countries are target for acquirers and the focus is turning away from the traditional countries. For the last decades, mergers across countries were directed from developed to developed countries. Those countries were either neighbouring countries, such as mergers within Europe, or were mergers crossing the Atlantic.
Although, domestic mergers miss this component, the motivations and the general structure of mergers and acquisitions can be compared.

1.2 Delimitations

The proportions of the three parts are planned to be equally split across those. The research on mergers and acquisitions, as well as cross-border mergers and acquisitions is supposed to give an informational overview of the topic. These parts will not critically assess the information provided, but will serve as reference. The part of post-merger integration will give an in-depth look into the concepts of post-merger integration contrasted to non-cross-border mergers.

The thesis will not be able to provide more than an overview of the topics, and it does not qualify for a comprehensive study. Much more, the work should be understood as linking major concepts (e.g. motivations for mergers and acquisitions, general structure of an acquisition and different modes of mergers and acquisitions).

Researcher admit that the investigation of cross-border mergers and acquisitions are largely biased by a focus on U.S.-based or public firms, while statistics do not mirror this dominance in the actual cases (Erel et al., 2012). Due to the limited availability of comprehensive studies, the thesis will assume that no such bias exists.

Ultimately, culture -vague in itself- seems to enforce a very wide spectrum of opinions. Only few quantitative analyses can be found and even less a common reference frame. The broadness of the topic makes it indispensable to narrow down the field of research covered in this paper to the most detailed level possible. In particular, the research on national culture has to be assessed for its relation to post-merger integration and cross-border mergers and acquisitions. A shift towards alternative concepts has to be considered, if concepts of national culture do not return the desired results.

1.3 Structure of the Thesis

The structure of the thesis follows the following overview. First, all relevant structures regarding mergers and acquisitions will be discusses. This covers historical and figures, the forms and structures, the motives and reasons for mergers and finally, it will provide details of the post-merger integration phase. The second step is the assessment of the culture, which is divided into two main fields, the crossnational comparison studies and the intercultural interaction studies. Organizational culture will be contrasted to national culture and relevant frameworks will be presented and explained. The next step is a comparative study of the frameworks presented and other influencing factors, to evaluate their ability to answer the research question. Recommendation for future research will be highlighted in the end.

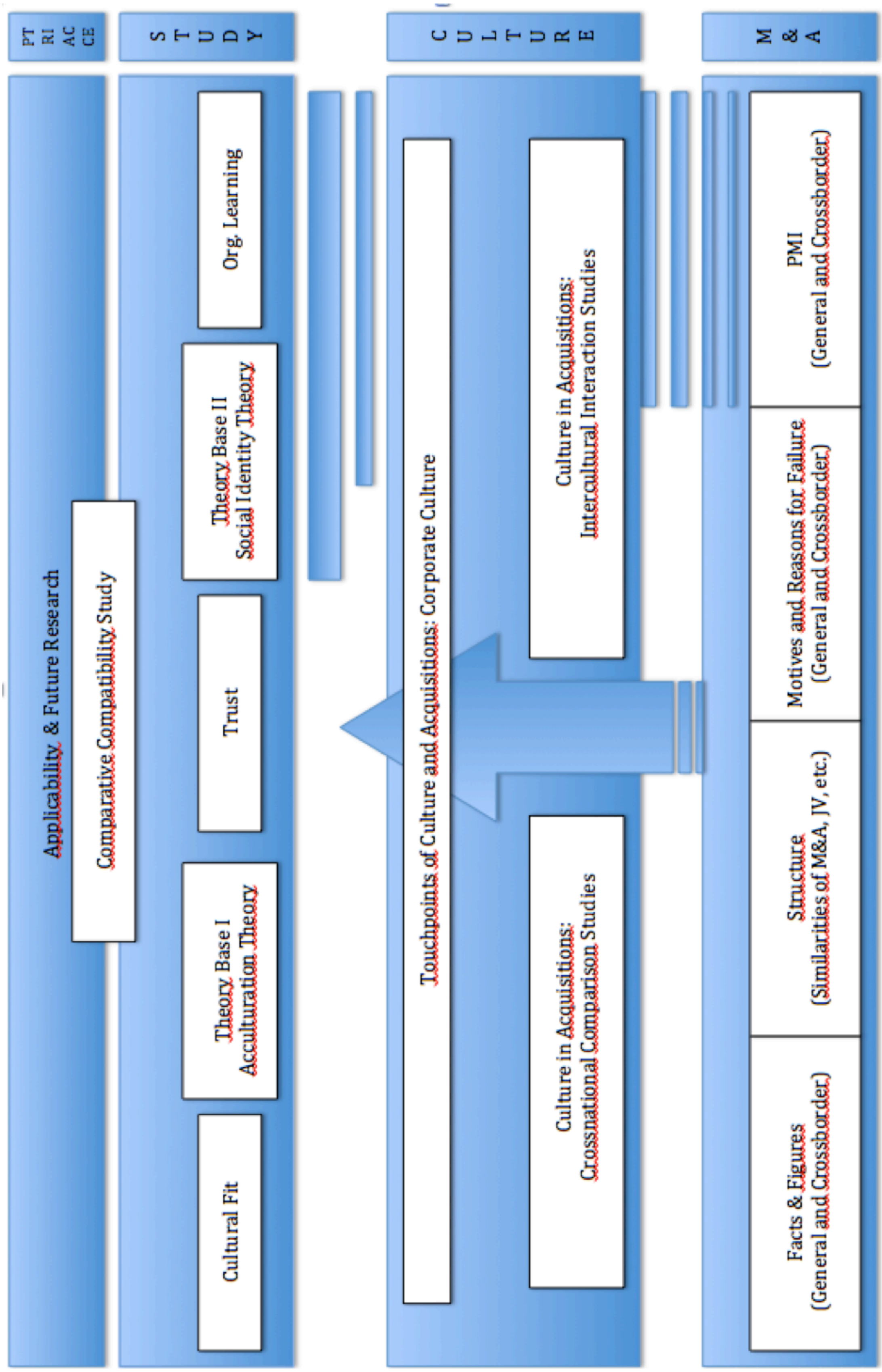

Figure 2: Overview of Thesis Structure
Source: own illustration

Chapter 2 – Methodology

In the first chapter, the motivation for and derivation of each component of the research questions was described. The description of the structure of the thesis provided the overview how the different components will be addressed in the course of the thesis and what specific theories are employed.
This chapter aims at providing a short introduction to the research method employed. Furthermore, the literature review will provide a broad summary of all theoretical concepts and their respective authors.

2.1 Research Approach

This study aims at understanding what influence national culture has in the post-merger integration process of a cross-border merger or acquisition.

The literature is processed in the way that, at first, major academic journals dealing with either mergers & acquisitions, organizational culture, or post-merger integration, or general business questions are identified and scanned for their article titles.

By doing so, around 20 journals were found and considered. Around 250 articles with connection to one, two or all of the three topics were discovered and systematically assessed. One of the quality measures was the ranking of the journal according to the JQ 2.1-scale. JQ stands for Jourqual and represents the journal ranking VHB-JOURQUAL with a range from A+ (highest grade) to E (lowest grade). It ranks the journals according to their perceived scientific quality. This measure is primarily used in Germany.
According to this measure, those articles were selected that were ranked between A+ and C. Articles from journals with lower rankings had to be reconsidered at a later point of the research. This strict selection allowed maintaining a certain level of measurable quality by using this indicator. Nevertheless, critical voices regarding this measure have to be admitted (e.g. Inkpen, 2001).
Additionally, the measure is mainly used in German speaking countries, which could give reason for bias. Therefore a second measure was used to validate the quality of the journals and their articles. Jorge E. Hirsch suggested the h-index. This index measures two factors of journals, the productivity and the impact of the articles that are published with one journal. The attributed h-index is based on the numbers of citations received. Braun et al. (Braun, Glänzel, & Schubert, 2006) critically describe the h-index and provide an example. Journals receive an index number, which ranges from 1 to above 150. Higher numbers reflect more received citations.

Examples of selected journals are the *Journal of Management Science*, the *Strategic Management Journal*, the *Academic Management Review* and the *Journal of*

International Business. The *Journal of Management Science* received an A+ rating on the JQ 2.1-scale and an h-index of 134. The *Strategic Management Journal* was ranked an A (JQ 2.1-scale) and scores 146 on the h-index. The *Academic Management Review* is rated an A+ (JQ 2.1-scale). The *Journal of International Business* ranks at an h-index of 94.
Not all journals will be assessed here, however this short comparison demonstrates that the journals rank equally good on both scales, however they still show some deviation. Some journals are not listed in the selected rankings.

For the topic of the research, it was necessary to branch out in adjacent scientific fields of research. Respective journals were selected, such as the *Journal of Finance*, the *Journal of Organizational Dynamics*, the *Journal of Policy Modeling* or the *Journal of Personality & Social Psychology.*

It is also worth mentioning that most journals and therefore articles for this thesis are found in scientific English-speaking journals. Additionally, books and longer dissertations are considered. The sources are mainly in English, however there are some selected books in German.
The literature can be interpreted as a mixture of recent articles and base articles. Most literature used was published between 1990 and 2012. Exceptions are only made for articles that had ground breaking character in their respective time and that influenced today's research significantly. Those articles date back to the early 70's and 80's.

For the literature search, the so-called backward-oriented method ('ancestry' approach) is followed, meaning that the articles were initially located based on several key articles and their reference list. References were carefully selected from contemporary sources and the process way iteratively continued to the earliest references, if required. This snowball system can be contrasted to the forward-oriented method. This method means that every single issue is looked at for suitable articles.

The literature on the specific topic of national culture's post-merger integration influence on cross-border M&A was extremely limited. Only two or three articles with a similar research focus as the thesis were found in the existing literature. Those were partially used as basis for this thesis, but were partially lacking a well-researched background and had therefore to be discarded.
In general, most research did not make a difference between national or organizational culture. Most literature on culture in the M&A process turned out to be very fragmented and prescriptive. Many researchers have published single case studies (Ailon, 2007; Deetz, Tracy, & Simpson, 2000; Kunda, 2006) on the influence of culture in change processes. Many of the studies however lack a detailed description of the merging process, and they only examine the company over a certain period of time starting with or shortly after the merger (Olie, 1994).
The literature base for chapter three is comparably limited for the first part. This

section was written to provide the reader with all relevant information on merger and acquisition and should establish a common basis of knowledge for the references made later in the thesis. This chapter is more to be understood as preparatory chapter for the analysis of the theories and is therefore deliberately limited in its scientific scope and variation of literature.

In general, the literature search can of course not cover a comprehensive and all-embracing list of articles. First, not every journal, nor every article on this topic could be scanned. Second, some titles were misleading in their scope and were therefore not found in the related search, though they might have been relevant. Third, it is not intended to provide a full list, but rather a selection of relevant articles that help answering the research question.

The thesis intends to contribute to the current research on culture in the M&A process. It tries to bridge the research that is done on culture in general and organizational culture in particular, to help close the gap to national culture concepts and their applicability in the organizational context.

2.2 Literature Review

The literature review serves as introduction to the research done in the areas of interest of this thesis and therefore, it follows the structure of the thesis.
However, the analysis reserves the right to expand in specific areas, while others will not be elaborated more specifically. Furthermore, the literature review covers only those parts of the thesis, which are discussed in research and relevant for the thesis. It does not reflect on the basic information provided, such as the history of M&A or for example, the types of strategic combinations that exist.

The discussion will be started with the M&A research, which builds the background and base for the research question. The motives and reasons behind mergers and acquisitions are numerous and often depending on the company's strategy, the industry and market conditions (e.g Brealey, Myers, & Allen, 2006; Brock, 2005; Tanure, Cancado, Duarte, & Muylder, 2009; Trautwein, 1990). Nadolska and Barkema (Nadolska & Barkema, 2007) offer an overview of the main motives: "Acquisitions make it possible for companies to build a local presence quickly. They help them to achieve greater market power, overcome barriers to entry, and access new knowledge of market needs and technologies [...]. Acquisitions may help companies to […] redeploy assets, […] and increase shareholder value, at least in the short run." Many researchers highlight different motives and focus on specific reasons along the given summary.

Reasons for the failure of M&As are as various as the motives for the initial merger. Recent research suggests that M&As fall short of their expectations by almost 50%

(e.g. Cartwright & Schoenberg, 2006; King, Dalton, Daily, & Covin, 2004). However, literature indicates that there are numerous ways to measure the merger's success as well as a different set of desired outcomes by the company can likewise influence the evaluation. A critical review of M&A performance measures by Meglio and Risberg (Meglio & Risberg, 2011) suggests that there are no problems in the measures itself but already in the definition and demarcation of the construct of 'organizational performance'. Definitions can range from 'financial performance' to 'organizational effectiveness', being quantified or evaluated through accounting returns, share price fluctuations, market share or event study, synergy creation and questionnaires along with other –more recently adopted – measures such as the use of the balances scorecard (Krishnakumar & Sethi, 2012; Meglio & Risberg, 2011).

Especially the high failure rate of M&As stimulated further research into two additional aspects of M&As. Firstly, the structure of the M&A process and secondly, the so-called 'human elements' (Cartwright & Cooper, 1995).
The M&A process is structured into different stages, which can in its most simple form be categorized in: development of an internal M&A strategy by the acquirer, the target screening and selection (due diligence) of the to be acquired company, the transaction execution and the post-merger integration.
In general, all stages can influence the M&A performance. However, many scientists detected the pre-merger due diligence (e.g. Angwin, 2001; Högemann, 2008) and the post-merger integration to be crucial parts for a successful acquisition performance (e.g. Brock, 2005; Cartwright & Cooper, 1993; Meyer, 2008; Mirvis & Marks, 1992), thereby deploying a multitude of performance measure as success indicators.
In regards to the human elements, the recognition of this element first became evident when strategic and financial explanations would not adequately explain the failure of a merger and 'soft' factors came to the fore. Although, the term 'human elements' still covers a multitude of factors such as leadership aspects (Waldman & Javidan, 2009), general HR-related functions (Piekkari, Vaara, Tienari, & Säntti, 2005), sociocultural (Stahl & Voigt, 2008) and cultural aspects (e.g. Stahl & Javidan, 2009; Waldman & Javidan, 2009; Weber, Tarba, & Reichel, 2011). For the further discussion it is imperative to note that the notion of human elements, though arisen in the discussion about M&A failure, does not necessarily have a negative effect on M&A performance, but has to be noted to have *an* effect (e.g. Björkman, Stahl, & Vaara, 2007, p. 659; Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009, p. 217).

This is why the review now turns to the element of culture. Generally, research on the role of culture in mergers and acquisitions can be divided into cross-national comparison studies and intercultural interaction studies. Cross-national comparison studies investigate how approaches to M&A differ across nations or cultures. In contrast, intercultural interaction studies explore the effects of cultural differences for the M&A process (Stahl and Javidan, 2009).

Cross-national comparison studies take a broad look at M&A in general and the variations in M&A approaches, thereby not focussing on the post-merger integration process in particular. In this field of research it is argued that different cultural backgrounds of the acquiring company lead to different preferences in the approach to M&A, such as the due diligence practices, the control systems or the post-merger integration (Stahl & Javidan, 2009).
There are several, country-specific or phase-specific examples to be found in the literature. Angwin (2001), for example, examines the impact of culture on the pre-acquisition management, with its determination of cultural differences in the assessment of “the value of due diligence and the use of professional advisors in the pre-acquisition phase” (Angwin, 2001). He argues that this does not only influence the pre-merger phase, but also impacts the post-M&A integration process and possible problems occurring in this phase (Angwin, 2001; Högemann, 2008).
Other authors (e.g. Calori, Lubatkin, & Very, 1994; Child, Faulkner, & Pitkethly, 2001) investigated the next step in the M&A process, detecting that the choice of control systems -with the extent of strategic and managerial control and the managerial practices- can be depending on the cultural background of the acquirer.
Moving forward to the post-merger phase, literature shows that there can be a connection of acquirers behaviour and the acquired company in relations to their national culture (e.g. Goulet & Schweiger, 2006; Stahl, Chua, & Pablo, 2012; Stahl & Javidan, 2009). For example, Stahl compared German and Singaporean managers and employees and their coping with being the acquiring or acquired part in an M&A.

Intercultural interaction studies deal with the consequences of national cultures on the M&A process itself. At the basis of this stream of research is a concept called ‘cultural distance’. Various researchers have investigated the cultural distance hypothesis, which –in summary- suggests that in cross-cultural context, costs and risks increase with a higher dissimilarity between the two cultures (represented by individuals, groups, organizations, etc.) (Björkman et al., 2007; Stahl & Javidan, 2009). The comparability of cultures was thereby initially investigated by Hofstede (Brock, 2005; G. Hofstede, 1980), with his ground-breaking and comprehensive research on the influence of culture on the values in the workplace. However, in the following research this will not be the primary focus of the thesis, due to the controversially discussed findings of Hofstede’s research (e.g. Chakrabarti et al., 2009; Tayeb, 1994) and the preference for more current research conducted (Mead, 2005). However, Hofstede will be reviewed briefly as his theory influenced and structured the major stream of cultural research.
Returning to the cultural distance paradigm, the concept is used in different ways in the M&A research. While Drogendijk et al. (Drogendijk & Slangen, 2006; Kogut & Singh, 1988) explore its effects on the choice of entry mode in cross-border M&A, Barkema et al. (Barkema, Bell, & Pennings, 1996) are looking into organizational learning across cultural barriers. Finally, also its effects on cross-border acquisition performance and success are investigated (Morosini, Shane, & Singh, 1998; Reus & Lamont, 2009).

Stahl and Voigt (Stahl & Voigt, 2008) detected the Kogut and Singh index (Kogut & Singh, 1988) as a majorly used measure for cultural distance in the M&A research. The research was and is used in different areas of M&A research, namely performance evaluation, management turnover, sales and returns. However, similarly to Hofstede, Kogut and Singh's index is criticized in the researcher's sphere (e.g. Drogendijk & Slangen, 2006; Stahl & Javidan, 2009, pp. 124–126). In the evaluation and synthesis of the research in the context of this thesis, also Kogut and Singh's theory will be considered for further investigations, while being critically assessed.

Additional research will take into consideration a wider frame of intercultural interaction studies, widening the research from the cultural distance paradigm to a broader integration process view. Thereby, it is intended to show an alternative - less critically discussed- linkage between cultural differences and M&A processes and outcomes (Stahl & Javidan, 2009). The discussion will lead to the presentation of the GLOBE (Global Leadership and Organizational Behaviour Effectiveness) Project that studied nine cultural dimensions – already existent and newly introduced ones – in sixty-one countries (e.g. House, Javidan, Hanges, & Dorfman, 2002; Jackson & Parry, 2008; Nardon & Steers, 2009).

Up to this point, the research discussed focused on how culture is influencing the M&A process (pre-merger to post-merger) and the measurements of cultural distance. Now, the review will narrow down to the micro-level of the firm, examining how national cultural dimensions influence the alignment process of two merging firms in the post-merger integration.

Many authors evaluated the different stages of the M&A process and detected the post-merger integration process being of crucial importance for the M&A success (e.g. Datta, 1991; Larsson & Finkelstein, 1999; Waldman & Javidan, 2009). Nevertheless, the reasoning is rather multifaceted and research draws findings from different areas, especially, when trying to explain the influence of culture on post-merger integration. Many authors studied the concepts of cultural and organizational fit as a tool to determine PMI success (e.g. Birkinshaw, Bresman, & Håkanson, 2000; Datta & Puia, 1995; Datta, 1991).

In research, the combination of the cultural influences and the post-merger integration led to the development of frameworks and models which help to structure the process and to facilitate a better understanding to benefit organizations and research likewise. Following, several models will be presented briefly. All theories refer to the concept of culture in general, and do not specifically explain the influence of national culture (Morosini & Singh, 1994, p. 391). However, the following theories establish a theoretical foundation and will be serving as starting point for the discussion and the later established framework. The focus is on the two major theories, the Acculturation Theory and the Social Identity Theory. Further concepts, such as Trust, Cultural Fit

and Organizational Learning will also be considered (Seo & Hill, 2005; Stahl & Javidan, 2009).
The Acculturation Theory is often described as “changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions” (Berry, J.W. 1980, quoted in Nahavandi & Malekzadeh, 1988). Acculturation can be understood as a conscious, more organic and diffusive development of a new mutual culture (Sarala, 2010; Seo & Hill, 2005; Stahl & Javidan, 2009). This agreement follows different modes of acculturation, identified as integration, assimilation, separation and deculturation (e.g. Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988).
The Social Identity Theory refers to the individual as being defined by its group membership. This can be in the organizational, the professional or the work group. The strength of the group membership and the standing of the group in its context will thereby determine, to what degree a new identity will be accepted (Seo & Hill, 2005; Stahl & Voigt, 2008).

The Cultural Fit Theory suggests that the closer the two pre-merger cultures were, the smoother will the integration and emergence of a third, shared culture be. Cartwright and Cooper (Cartwright & Cooper, 1993, 1995), as one of several scientists identifying this relationship, proposed it in connection with corporate culture, however the concept can also be transferred to national culture values.

Additional concepts such as Organizational Learning hint on the company’s ability to ‘learning by doing’, assuming that if a company is experienced in M&A, it will have a positive impact on their future acquisitions and their integration (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Furthermore, the concept suggests that cultural dissimilarity has a positive effect on corporate learning and value creation. Although, the learning potential might be higher, the problems of integration continue to persist (Stahl & Javidan, 2009; Waldman & Javidan, 2009). Finally, Trust is a concept especially interesting in the cross-border context, as it facilitates the members to overcome their biases and thereby reducing the potential for conflict (Stahl & Javidan, 2009).

Other influencing factors are also important, but will not be further discussed in this thesis. For example, the influence of the capital markets is based on the assumption of fully available information on the stock markets. Given this assumption, investors would also give cultural components a certain value that would affect the overall value of the merging company. (Stahl & Javidan, 2009)

Chapter 3 – Mergers & Acquisitions

3.1 Mergers & Acquisitions – Introduction

This chapter provides the theoretical definition and differentiation of the concepts of ‘merger’ and ‘acquisition’, laying the groundwork for further discussion. It will specify the terms, highlight the different M&A cycles, will give a historical overview and summarize the underlying motives and goals of M&A.

The terms ‘merger’ and ‘acquisition’ define a wide array of activities. While the strict definition means a transaction that involves the closure of the autonomous business activities of at least one of the partners, the general understanding ranges from licensing agreements to acquisitions. Thereby the forms of legal combinations can range from relatively informal networks to the absorption of one entity by another. Mirvis and Marks (Mirvis & Marks, 2010) define: “The forms of combination vary by the depth of commitment and level of investment between the organizations joining forces”.

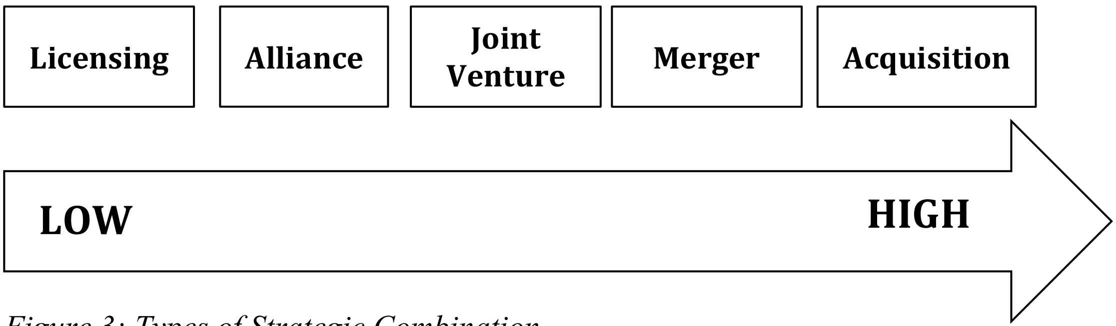

Figure 3: Types of Strategic Combination
Adapted from (Mirvis & Marks, 2010) in (Bauer, 2012)

In the following paragraphs, the five major types of strategic combination will be summarized: licensing, alliances/partnerships, joint ventures, mergers and acquisitions.

Licensing is the most simplistic form of strategic combination. The commitment and the amount of investment are comparably low. Licenses for products, services and trademarks transfer rights for a specific technology or for a certain brand value. This gives the licensee on the one hand a legal ground for the usage of it, and on the other hand it generates a steady revenue stream to the licenser.
A special and more restrictive form of a licensing agreement is **franchising**. This form of strategic combination is often used in those service sectors with direct contact

to the customer. As a sub-form of licensing, franchising is generally stricter in the concession of rights, binding the franchisee to strict rules. Here, “the franchisee pays the other firm, the franchisor, for the right to sell the franchisor’s products or right to use its trademarks and business format in a given location and for a specified period of time”(Lafontaine, n.d.).

Alliance (Partnership) This form of strategic combination can be manifold. Literature differentiates between horizontal, vertical and conglomerate or lateral cooperation. While horizontal cooperation is a strategic alliance at eye level between two corporations at the same value chain level and with the intention to make use of synergies and to lower risks to remain competitive, vertical cooperation is considered to be more of a strategic network where partners are at different value chain levels that feed into each other with the intention to optimize the interface. Examples for the first form of cooperation can be found in in the airline industry, where code-sharing is a common concept to reduce cost and to optimize capacity usage (e.g. Lufthansa and United Airlines). An example for vertical cooperation is to be found in the automotive industry, where external companies such as IBM provide electronic devices and programs for the navigation system. Finally, conglomerate or lateral cooperation is detached from competition or value chain aspects, but nevertheless shows an advantage when cooperating. This form of cooperation is usually driven by consumer demands. Examples can be found in the travel industry that increasingly offers bundles (Hungenberg, 2006; Meffert, 2012).

In general, alliances and partnerships are characterized by the mutual interest to share risks and to create a competitive advantage to decrease competition (Mirvis & Marks, 2010). The individual strengths in specific industries or functions are combined to open up new potential for success. However, alliances have major impact on the companies’ room for manoeuvre in the overlapping functions, while the remaining functions stay untouched and the companies stay legally autonomous (Bauer, 2012).
Today, companies are increasingly forced to build strategic alliances, due to the gradually globalizing economies and the greater dependencies in terms of technology and infrastructure.

Joint Ventures are strategic combinations that require stricter forms of agreements. This cooperation is based on three main differing factors as compared to strategic alliances. While strategic alliances are considered an overlap of specific areas, joint ventures build a third entity of two legally independent companies. First, the newly created joint venture is its own legal entity. Second, it is the property of two legally and economically independent companies. And lastly, managers from both companies engaged lead it (Jansen, 2004).
Marks and Mirvis summarize, “a joint venture goes further, by establishing a complete and separate formal organization with its own structure, governance, workforce, procedures, policies, and culture – while the predecessor companies still exist” (Mirvis & Marks, 2010, p. 12).

Mergers are the logical extension of Joint Ventures, where two legally independent companies do not form a third entity, but create together a new legal entity, thus the former two emerge into one. While theory assumes that the corporations are merged within a new legal framework, often reality shows that the legal framework of one company is kept as a base for the emerging company. Furthermore, mergers are categorized in three different types. Downstream merger applies when the parent company merges with the affiliated subsidiary and the subsidiary continues to exist. The upstream merger leaves the parent company as the abiding legal framework. Sidestream mergers describe the merger of two associated companies at the same level (Bauer, 2012).

Acquisitions differ from mergers in that a majority stake of the company is being sold to at least one other company. For public companies, this can happen by selling or buying shares of the company to be acquired. Generally spoken, the threshold for ownership is set at 50% of the shares (share deal). For private companies the major stakes in the assets will be taken over by the acquiring firm (asset deal). The most important differentiation between mergers and acquisitions is that acquisitions' foremost motivation is the commercial aspect, while the legal integration might follow ex post (Bauer, 2012). Mirvis and Marks (Mirvis & Marks, 2010) define: "An acquisition typically is the purchase of one organization for incorporation into the parent firm".

An additional form of investment, though it does not directly relate to a form of strategic combination, is the **Greenfield** investment. This form of investment is generally undertaken across borders. Therefore, this makes it a valid alternative to mergers or acquisitions abroad. However, greenfield investments are associated with higher costs for the construction of operational facilities, as well as the general transfer of assets and know-how, and even human resources.
In comparison, mergers and acquisition open up new resources for the acquiring company, transferring know-how reversely into the acquiring company. Nonetheless, advantages and disadvantages have to be assessed case by case and are highly dependent on the classification of M&A (Kim, 2009, p. 61).

3.2 Modes of Merger & Acquisition Transactions

In the following, the terms M&A, merger, acquisition, and takeover will be used interchangeably. The great majority of transactions classified as cross-border M&As are in fact acquisitions; see UNCTAD (2000, Chapter IV). (Bjorvatn, 2004) Many deals that are officially labeled as 'mergers' are in reality acquisitions. This is due to the fact that the balance of power that would be needed for a merger (merger of equals) is often not realistic. Nevertheless, the term is often used for political reasons to protect the weaker company, which is taken over. (Sarala, 2010)

As M&As can have a major impact on the market and all involved players, such as competitors and customers, M&A transactions are well monitored to prevent the creation of monopolies and to maintain a healthy market equilibrium. The merging companies have to undergo a rigorous procedure with industry-related, country-specific or international commissions, to receive authorization.
Federal trade commissions have developed comprehensive schemes to classify those transactions.
The American Federal State Commission[2] developed a framework that is commonly used for the classification of M&A transactions.

		Market Relations	
		Same	**Different**
Product Relations	**Same**	**Horizontal M&A**	**Market Extension M&A**
	Long-linked	**Vertical (Backward) M&A**	**Vertical (Forward) M&A**
	Unrelated	**Product Extension M&A**	**Conglomerate M&A**

Figure 4: Systematic Table of the FTC typology of M&A
Source: adapted from (Risberg, 2006, p. 33)

M&A transactions can be summarized in three main types: The horizontal M&A, where the companies operate in the same market; vertical transaction, where companies act on different levels of the value chain; and conglomerate M&A, where the companies‘ operations are totally unrelated.
For the purpose of this thesis, the provided differentiation gives a sufficient overview. However, there are several more schemes for the classification of M&As that give a more detailed insight or a different angle on the transaction of a merger or an acquisition.

[2] American Federal Trade Commission (FTC - http://www.ftc.gov) is the US American trade commission that operates as independent agency of the United States government. The European Commission has a Directorate-General for Trade (http://ec.europa.eu/trade/).

3.3 Motives and Goals of M&A

Motives and intended outcomes for M&As are manifold and numerous. In general, it can be said that there are value-maximizing (Erel et al., 2012, p. 1048) and non-value-maximizing M&A motives (Datta, 1991).
While the value-maximizing motives are driven by rational considerations, the non-value-maximizing ones are generally driven by sociological or macroeconomic reasons.

Trautwein (Trautwein, 1990) depicted the different theories in the following table.

<table>
<tr><td rowspan="4">Merger as rational choice</td><td rowspan="4">Merger benefits bidder's shareholders</td><td>Net gains through synergies</td><td>Efficience Theory</td></tr>
<tr><td>Wealth transfers from customers</td><td>Monopoly Theory</td></tr>
<tr><td>Wealth transfers from target's shareholders</td><td>Raider Theory</td></tr>
<tr><td>Net gains through private informations</td><td>Valuation Theory</td></tr>
<tr><td colspan="3">Merger benefits managers</td><td>Empire-building Theory</td></tr>
<tr><td colspan="3">Merger as a process outcome</td><td>Process Theory</td></tr>
<tr><td colspan="3">Merger as macroeconomic phenomenon</td><td>Disturbance Theory</td></tr>
</table>

Figure 5: Theories of Merger Motives
Source: (Trautwein, 1990)

The first five theories are consciously driven by financial aspects of the corporation, the latter two, are motivated by external factors.
The **Efficiency Theory** is based on the concept of synergy. There are financial synergies that result in lower cost of capital. While financial synergy as a factor to reduce risk due to a wider spread portfolio is critically discussed, only the advantage of size appears to have reasonable ground.
Secondly, there are operational synergies that come from combining formerly separate business units into one, or from access to additional know-how (Phillips & Zhdanov, 2013). And finally, there are managerial synergies, which are generated by superior skills of the new managers. Both of the latter forms of synergies are questioned to have an evitable impact.

The **Monopoly Theory** describes the increase of market power as the final aim of the organization. The Blackwell Encyclopaedia of Management defines, "Monopoly is exclusive control over producing or selling a commodity or service. By definition, when a monopoly exists there are not numerous sellers in a market, each having a share, but only one seller having 100 percent of the market. (Natale, O'Neill, & Sora, n.d.).
This theory finds its main impact in horizontal mergers, whereas with other merger forms this theory has only a small impact or none at all.

The **Raider Theory** is, in its theoretical context, a theory of minor importance. However, it is based on the same assumption as the previous theories of mergers, being a rational choice. The theory focuses on financial gain for the bidder's shareholders by transferring the wealth from the target company's shareholders. Though, in the merger and acquisition process, the bidding company is paying a premium to buy the targeted company and this premium is benefitting the target company's shareholders (Trautwein, 1990).

The **Valuation Theory** is driven by uneven distribution of information that bidder companies have as compared to the stock market when acquiring another company. A major objection to this theory is the conflict with the market efficiency theory. The valuation theory's assumption is that all publicly available information is incorporated in the stock price of a company and the stock price therefore reflects the real value of the company. The valuation theory proposes that there is private information that gives the bidder an advantage, which he would reveal latest with the offer. This, in consequence, would lead to an increasing stock value due to additional –now public-information. A real life example is the practice of private equity companies, which are constantly dealing with non-public information of buyers and sellers. The office practice is not to disclose any real company names. This is why the supervising project manager assigns code names for companies that are publicly listed. Non-project related staff might not know the company's public name.
Supporters of the valuation theory argue that the ambiguity of information leads to several possible states in the future. The bidder has to navigate the uncertainty and evaluate the probability of the desired state with the bid price. The subsequent increase in the stock price can than be driven by the bid only, not necessarily by the information revealed. Often other actors on the market cannot process the information itself, however the bid is sufficient to drive the price upwards. Furthermore, even the target company may not place the same valuation on particular information as the bidder does. Reasons for this may vary, but one example is that the bidder detects advantages by combining the two companies, the bidding and the targeted one. The valuation theory, though it partially denies the market efficiency theory, helps to understand certain motives behind M&As.

The **Empire-Building Theory** incorporates a range of different motives for M&A. Therefore, there is more evidence to be found for this theory as opposed to some of the previously presented theories. The empire-building theory has its ultimate motivation in the maximization of the manager’s and not the shareholder’s value. Usually, the concept of empire-building is linked with excessive spending in the form of company cars, excess staff of prestigious investments, but there are more characteristics, such as the desire for growth as compared to competitors and the quest for new fields of activities, mostly driven by an excess of cash (Dorata, 2012, p. 580). Important to note is that these motives may be inherent in the decision for an M&A, though they are subsurface (Trautwein, 1990).

The **Process Theory** describes the strategic perspective of M&A motives with the M&A being an outcome of a strategic decision making process. Thereby, the decisions are influenced by incomplete information or information evaluation capacities, the multiplicity of participants and routines in the decision finding process, as well as tactical adjustments due to different political power structures. While this theory lacks official evidence from M&A deals, research is giving it some account. Managers try to rationalize the M&A process, leaving no leeway for soft factors, such as internal political structures that make mergers also a matter of two CEOs and their particular personalities. Research shows that this theory offers a touch point for further investigation into strategy formation of the corporation, political structures in general and also cultural differences that can impact the acquisition(Trautwein, 1990). This theory also highlights another perspective, namely the perspective of the employee, who is majorly effected by a structural or strategic change of the organization. The uncertainty that employees face between the M&A announcement and the closing of the deal, and most surely in the time after, may not be a direct motive of a M&A. However, these concerns are important and are recognised in a process-oriented assessment (Dorata, 2012, p. 580).

Finally, the **Disturbance Theory** approaches the search for motives from a macroeconomic perspective. This theory is based on the implications that the merger history with its waves shows. Thus, economic disturbances cause changes, new expectations and increase the uncertainty, which is why there is a shift of assets from those who want to push them off and to new owners. Due to its very broad view, the theory cannot be used as an explanation of the management side regarding their motives for an M&A. However, it may be used as a basis for arguments for the failure or success of the M&A later in the process.

3.4 Reasons for the Failure of M&A

Reasons for the failure of M&As are as various as the motives for the initial merger. Although, research literature cannot agree on a fixed failure rate for mergers, research does agree that high failure rates exists.

Some researchers indicate that M&As fall short of their expectations by almost 50%. Other researchers speak of 70% of value that is destroyed by an acquisition. A study that was undertaken in the 1990's by Datta et al. (Datta, Pinches, & Narayanan, 1992) analyzing 40 studies that use financial economics as the initial point of their investigation of acquisition performance, came only to limited insights regarding the factors that moderate M&A performance. A decade later, King et al (King et al., 2004) undertook a comprehensive meta-analysis of 93 empirical studies and discovered that companies after an M&A do not outperform companies that did not undertake an M&A in the first place. This suggests that the anticipated synergies were not created along the M&A process.
For the discussion of the reasons why mergers and acquisitions have such a high failure rate, it is important to highlight the assumptions and limitations for the evaluation of what is considered a failure. First, the time of the evaluation is significant. The longer the timeframe for the evaluation, the better the estimation of the impact of the M&A. Usually, a period of five years gives a timeframe long enough to do a proper analysis as it allows to subtract external influences.
Generally spoken, there are two cases in which a M&A can be considered as failed. First, the premium which was agreed upon was too high, or second, the merger value that was estimated to be created was lower than expected or even deducted value from the two companies' original value (Vermeulen, 2008).

From the financial economic studies' perspective, the benefits of a M&A are usually measured in share price and have to be found to benefit the shareholder in the short-run. Studies that employ different product-market and accounting-based measures of profitability mostly indicate negative outcomes for mergers and acquisitions. Interestingly, non-financial based studies that inquire for the managerial perception of success indicate that M&A's are often seen as not having met the expectations (Olie, 1994).

A new argument in the quest for the reasons of M&A failure was introduced by Meglio and Risberg (Meglio & Risberg, 2011). They suggest that the initial definition of "M&A performance" is causing the widely differing result in M&A's performance research. The authors argue that it is not the variety of M&A performance measures that causes the problem. Rather, it is the presumption of research that all these measure can be compared along the same scale. Many different factors influence and shape the M&A and in consequence the term M&A performance itself and its measurement process. Meglio and Risberg come to the conclusion that M&A performance is not a universal construct, but will have to be assessed in the light of its context, as well as how the operationalization of the construct changes the 'performance' evaluation depending on the audience.

On this topic, King et al. (King et al., 2004, p. 198) close with: "The typical effect of M&A activity on firm performance has been well documented, and, on average, M&A activity does not lead to superior financial performance. […] Thus, despite decades of research, what impacts the financial performance of firms engaging in M&A activity remains largely unexplained."

Stahl et. al (Stahl et al., 2012) explore this field of research, the influences of cultural aspects of the organization on M&A's, in their article. Stahl et al. recognize that most attempts to explain M&A success and failure has focused on strategic and financial factors. They detect this as an emerging field of inquiry. This being more directed towards sociocultural and human resource subjects as influencers of M&A success and failure. They point out concepts such as cultural fit, pattern of dominance, the firm's interaction history, procedural justice, cultural and HR issues, as well as leadership styles and the general climate of the take-over from a social perspective.

3.5 Merger & Acquisition Cycles and the Historic Context

This sub-chapter provides a brief overview of the historical M&A cycles and leads the way into more recent developments of cross-border M&A. The historical view on M&A waves is interesting, as it provide an impressive evidence of the cyclicality and the macroeconomic dependency of M&A, which may lead to a better placement of the recent developments.

Weston (Weston, 2001) identified ten major change forces in the world economy that affect M&A activity.

(1) Acceleration of technological change
(2) Reduced cost of communication and transportation
(3) International scope of markets
(4) Expansion of forms, sources, and intensity of competition
(5) Emergence of new industries
(6) Deregulation and regulation
(7) Partially favourable economic and financial environment (1982-1990; 1992-2000)
(8) Negative trends in certain individual industries
(9) Increasing inequality in income and wealth
(10) Relatively high valuations for equities during the 1990s

While this collection of change forces was the outcome of Weston's research in the early 2000's, the influence of the single factors has to be assessed individually for the different decades before and after that time. However, the change factors can be taken as long-term themes that vary in importance and influence over time. They build a solid groundwork for the understanding of the historical overview of the M&A market.

The M&A market is considered a cyclical market. This means that there is a natural oscillation between downturns and booms. Researchers discuss several explanations for this observation. While some believe that changes in the economy, technology or the legal frameworks are the trigger for the cyclicality, other researchers found behavioural aspects cause the waves. Hence, it is the overvaluation of the market that causes the actors in the financial markets to acquire what they believe are underpriced companies (Bauer, 2012).

Dating back to 1895, the history of M&As can be divided into 6 major waves.
The **first M&A wave** (approx. 1895 to 1915) was driven by technological advances that were able to satisfy larger consumer demands. However, those demands had yet to be created. Upcoming legal regulations were unintentionally facilitating the creation of monopolies, making horizontal merger a common business procedure. Legislative authorities reacted and adopted counteractive measures (e.g. Northern Securities Decision, Sherman Antitrust Acts, Clayton Antitrust Act).
The **second M&A wave** (approx. 1916 to 1929) directed its acquisition efforts upwards or downwards the value chain, creating vertical M&As and an oligopolistic market structure. This wave ended with the global economic crisis on Black Friday in 1929.
Conglomerate M&As were a concept that became popular with the emergence of the idea of risk diversification by a wider spread in the portfolio (Brealey et al., 2006). Additionally, further legislative acts prohibited too strong ties of companies within one industry. The **third M&A wave** started in 1965 and ended in 1969 due to tax reforms and the downturn of the stock markets.

The **fourth M&A wave** (approx. 1984 to 1989) was characterized by internationalisation and the return to core industries of conglomerated companies.
While the **fifth M&A wave** (approx. 1993 to 2000) began with the highest trade volumes, it also majorly focused on the IT, supplier and services industries. However, with the stock market crash due to overrated shares in these sectors, the M&A activities were abruptly disrupted.
Finally, the **sixth M&A wave** (approx. 2002 to 2009) exceeded the previous waves not only in trade volumes, but also in number of deals. With the economic downturn financial investors drew back from the market and governments and governmental funds resumed (Bauer, 2012, pp. 21–24).

The dramatic growth in the global M&A market in the last 20 years is showcased by the continuous merger waves from 1993 to 2000 and 2002 to 2009 and the growth in volume. Furthermore, in this period the global distribution of M&A changed. The proportion of cross-border M&A was initially (in 2000) at 30% of the total M&A volume and increased to 50% proportion by 2010. Major cuts were provoked by the collapse of the dot.com bubble in 2000 and during the financial crisis that started in 2008.

While the development in the last years indicate that the slow-down is going to continue, companies and investors are currently waiting and observing the market to see if M&A fever has only subsided, not extinguished. A recovery, especially with focus on cross-border deals is expected in the long-run and indications show that the next wave will be driven by investments in emerging markets (Stahl et al., 2012).

3.6 Cross-Border Mergers & Acquisitions

The demarcation of M&A in a national and M&A in a cross-national or international context is important for the further investigation of the research question. There are domestic acquisitions, which are defined as acquisitions between companies that have their headquarters in the same country, as well as international acquisitions, which are acquisitions between companies that have their headquarters in different countries (Sarala, 2010).

Companies that prepare for a M&A have to take into consideration what strategy they are following in their expansion strategies when focussing on the cross-border or international M&As. Many studies come to the conclusion that there are different types of international strategies. The strategies to be found are the 'global', the 'multinational', a hybrid form called 'transnational' and the 'international' strategy. 'Global' and 'multinational' are concepts with a clear definition that can be found in literature. Usually, if the competitors are working in a globalized arena as well as a national one, products markets are strongly interconnected and a global strategy can be assumed. Multinational refers more to a company that faces less global competition and will find its competitors in the specific domestic markets. This in return means that the company tailors its strategy to the domestic market, and operates more as a decentralized network (Harzing, 2002). These external factors come into play when a company decides about the mode of entry into a new country. The evaluation of internal (centralized versus decentralized structure) and external factors (global versus local competitor landscape) will determine if the investment will become a cross-border M&A or might be a greenfield investment.

3.6.1 Motives for cross-border M&A

Cross-border M&As have the same or similar motives as their national counterparts. Usually, the main advantage of a cross-border M&A is the access that it provides to foreign markets, as compared to national mergers, which reduces the pressure of competition in the domestic market (Bjorvatn, 2004, p. 1212f). Also, the speed to market is high, as local presences can be established quickly as compared to other forms of investment (Nadolska & Barkema, 2007, p. 1172).

3.6.2 Reasons for Failure of cross-border M&A

When looking for obstacles and difficulties when pursuing M&As, there are different levels to be considered.

The **macroeconomic level** recognizes that crossing national borders adds uncertainty. The foremost issue for M&As that cross national borders are the legal challenges, governance-related difficulties, general differences in the macroeconomic structure (mainly the financial markets structure) of the two countries, uncertainties related to exchange rates and the reliability or unreliability of the local currency. (Erel et al., 2012) Furthermore, there are differences in corporate culture, management styles or communication patterns, as well as differing compensation structures. Considering the **microeconomic level** all these considerations are congruent with obstacles connected to geographic and cultural problems, which come into play with cross-border M&A (Erel et al., 2012).

3.6.3 Recent Developments in Cross-Border M&A

Erel et al. (Erel et al., 2012) recently published an interesting study on the determinants of cross-border M&A. In their study they were specifically focussing on the extent to which international factors, such as those mentioned previously, influence the decision to engage in a cross-border M&A. Their sample included 56,978 cross-border mergers between the years of 1990 to 2007. Several assumptions were tested with astonishing outcomes. First, it was hypothesized that the smaller the geographic distance, the more likely the merger would occur, due to synergy effects and cultural relatedness. Additionally, an interest from developed countries in less developed countries was expected due to lenient accounting standards, and tax advantages for the acquiring firm. Last, they expected the geographic component of cross-border deals was mainly driven by exchange rates and stock market return rates. This would either indicate general arbitrage possibilities or the companies' possibility to internally benefit from certain country combinations more than from others.

Nevertheless, the eagerness to engage in cross-border activity varies from company to company and is influenced by its prior exposure to capital markets and its desire to have more exposure in the future. Companies know that some capital markets are more demanding to enter than others as well as also understanding the ease and speed required to establish a successful business in different countries. Finally, a cross-border M&A deals encounters major restrictions in developed nations due to e.g. monopoly restrictions, which supports the tendency for an M&A to develop a relationship with a company from a developing nation (Angwin, 2001).

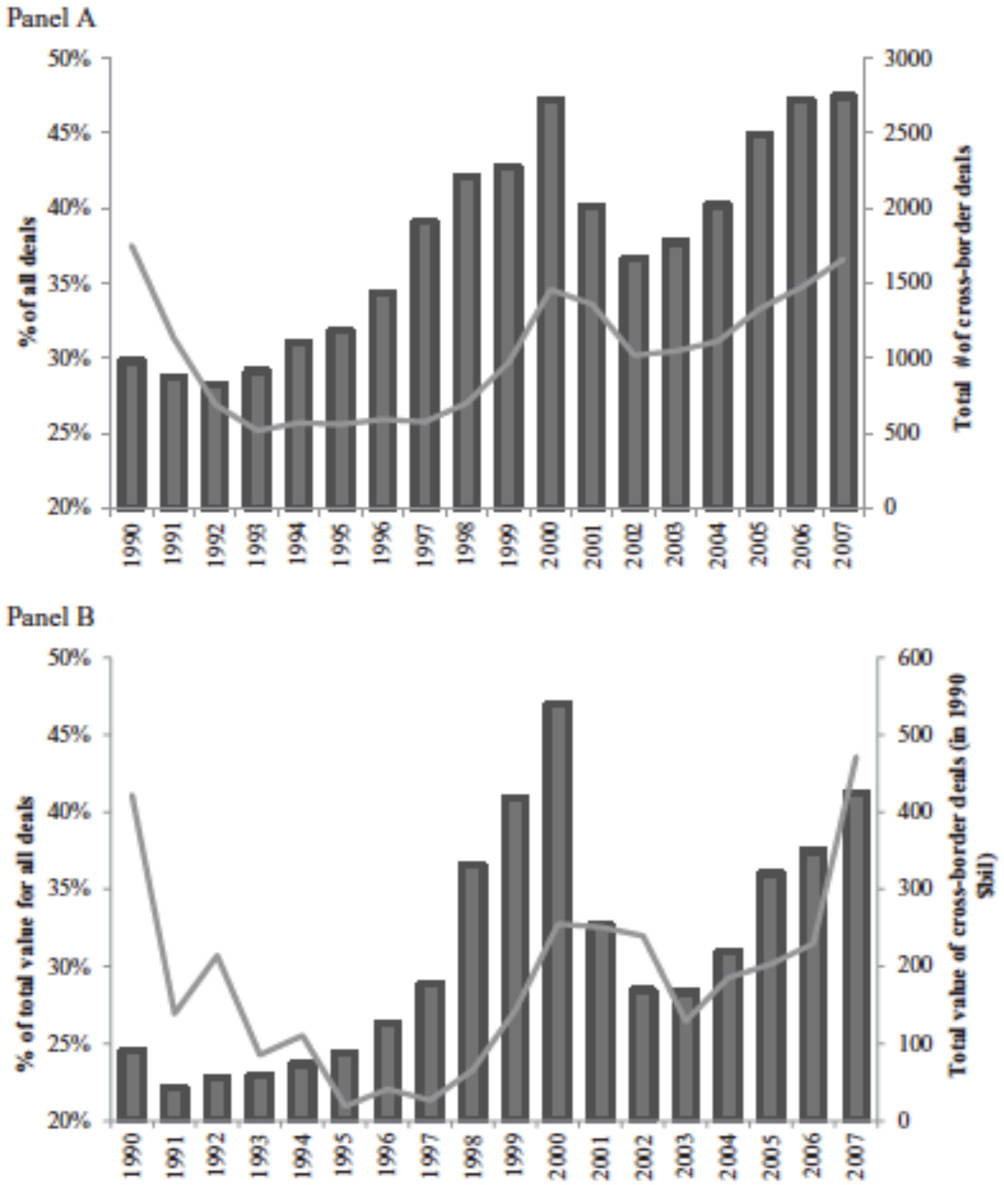

Figure 6: Total Value of Cross-Border M&A
Source: (Erel et al., 2012)
Note:"The figure plots the numbers (ratio) (Panel A) and the value (ratio= (Panel B) of cross-border deals with deal values larger than $1 million between 1990 and 2007. Bars represent numbers and values in a given year while solid lines represent the fraction of cross-border acquisitions relative to the total number or deal value of all acquisitions in a given year, including domestic once. All values are in 1990 dollars."

As Erel (Erel et al., 2012) suggested, the scope of M&A has changed over the last years. While still most cross-border deals in M&A are initiated by firms in developed nations, there is an increasing M&A activity between companies from developed and developing nations.
In general there is a growing volume of cross-border M&A. While in 1998 only 23% of all mergers deals were cross-border M&A, in 2007 it was 45%. The rising number of initiations coming from developing nations is found in countries like China, India, Malaysia, Russia, the United Arab Emirates and South Africa. Cross-border deals

between developed and developing nations are a growing sector in the overall M&A activity. From 2002 to 2011 its share grew from 5 to 9%. In 2011, 2,585 acquisitions of majority stakes between developed and developing countries were made. Emerging countries accounted for over 500 of the deals, which is around 20% of those initiated. In general, a growth trend for cross-border deals between emerging and developed nations, with the emerging nation being the initiator, can be observed. From 2002 to 2011 numbers show a 17% growth rate.
Although growth rates of M&A activity between emerging and developed markets are comparably higher, absolute numbers indicate that this trend is still a small percentage of the total M&A activities. However, it displays a steady increase in the process for these types of merger.
Only in 2011, with the economic turmoil in the Western markets, did the emerging markets' willingness to purchase in developed countries decreased. During this period, Western (European and American) companies boosted their acquisition activities in developing nations by 20%.
The reason motivating companies in developed countries to increase their investment activity in emerging countries was the threat by competitors. While competition is outsourcing and investing in emerging nations, other companies are following their example. Additionally, investments in emerging markets allow Western companies to access the growth markets and to permit cost reduction by synergy creation.

3.7 General Structure of Mergers and Acquisitions

For the purpose of this thesis, the M&A process has a very simplistic structure. There are three stages or phases assumed. The pre-merger stage, which includes the initial declaration of intent to pursue a M&A, as well as the initial screening of target companies. Due Diligence does also belong into this phase. The second stage is the transaction execution. It describes the time between announcement of the M&A and the closing of the transaction. This refers to all legal requirements being fulfilled and the first actions of the M&A are taking place (e.g. changes of logo or name, new corporate mission and vision statements, decision on new headquarters, integration publications, etc.). The third stage is the post-merger integration, which will be the focus of the following discussion.

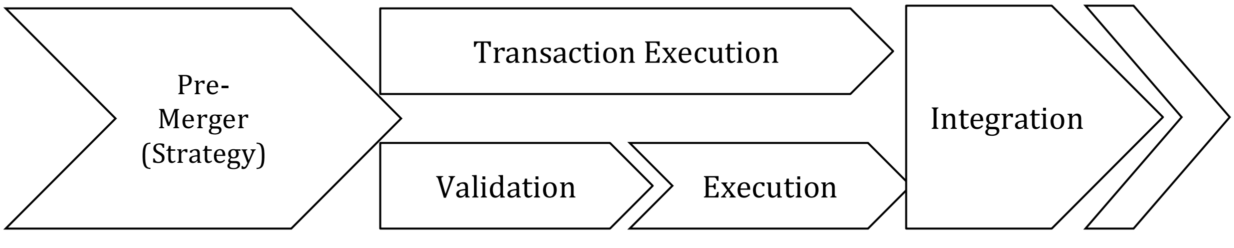

Figure 7: Simplistic Process Chart of the M&A Process
Source: own illustration

3.7.1 The Post-Merger Integration Phase

This chapter follows the structure of the general overview of the M&A chapter, highlighting the technicalities of the post-merger integration in relation to the M&A process, touching upon the success factors and motivations for a successful PMI, as well as describing models which are commonly used to achieve effective cultural PMI. The latter part will serve as bridge to the following chapter on culture.

In the following discussion the legal requirements and different country-specific laws regulating the M&A process will not be explored. Nevertheless, readers need to be cognizant of the fact that the regulatory requirements must be established and that the transaction has to be certified before the PMI can officially start. In general, integration affects different subareas of the merging organization. Those subareas are the strategic integration, which in the PMI is the consolidation of the strategic intent of the company. If one of the prior strategies will be inherited to the bought-out company, or if a new strategic direction is created depends on the form of M&A.
Second, there is the organizational and administrative integration. This subarea of integration merges the operational and administrative functions, with the effect that structures that became redundant as they are now doubled will be merged. However, this aspect is highly dependent on the depth of integration. The deeper the depth (e.g. absorption), the more there will be overlap of structures that have to be eliminated, including employees.
The third area of integration that has to be considered is the integration of the human resources. The PMI has a significant impact on the employees. While the organization often only looks at positions that are laid off, or the redundancy of departments, which causes major lay-offs, the employee is confronted with various additional aspects. The interruption in personal career goals, the impact on personal life, as well as changes in the feedback and compensation system cause major frictions for the employee. Often however, key employees are leaving the company in the various phases of an M&A. In reality, acquiring organizations might be advised to retain these employees as resources of knowledge and as part of the intangible assets that the buying company might have also paid a premium for.

The etymological derivation of the word 'integration' goes back to the Latin word '*integer*' (complete, intact, unbroken), '*integratio*' (reconstruction of a whole) and '*integrare*' (to round out, to complete). For the purpose of this thesis and the discussion, PMI is defined as a process initiated by the acquiring company in which employees of the acquiring and acquired company exchange and influence know-how and material resources and values are reallocated.
The PMI is the last and final phase of the merger and acquisition transaction. This phase is considered the longest of all phases, as newly gained information has to be processed along with the goals, which were set for the integration process (Behringer, 2013).

3.7.2 Motives and Goals of Post-Merger Integration

The PMI phase can have different characteristics and occurrences depending on the strategic intent of the merger or the acquisition. The PMI goes beyond merging business activities and touches upon socio-cultural and organizational aspects (Maire & Collerette, 2011).

Primarily, the objective of the post-merger integration in the operational part of the business is intended to make more effective use of the existing capabilities. This can relate to unit cost decreases, lower inventory holding costs, joint accounts for marketing, public relations, as well as logistics by merging similar department of the organisation. The PMI process can only make use of cost reducing capabilities if the acquiring party has laid out a plan for the integration of the bought company. While on the functional level, an organizational chart is easily changed and departments are quickly merged, there are many difficulties when it comes to incompatibilities such as management styles, the reward and evaluation system, organization procedures and structures, and last but not least, the culture, be it national or organizational (Datta, 1991).

As seen in the previous chapter, there are numerous motivations to undertake M&As. Many of the earlier described motivations arose from financially motivated arguments, the usage of synergies and cost saving potentials, all for the purpose to creating value for the stakeholder of the acquiring organization. However, as previously discussed, there are important points of failure for M&A's. These discussed points of failure for M&A's make clear that inappropriate business decisions, which are expressed in self-centered decision making (e.g. Empire-Building Theory) or an overconfidence in the available information, in relation with uncertainty (e.g. Valuation Theory), are reoccurring reasons for failures to be found in the first or second phase of the M&A. Thereby, the first phase being the Due Diligence phase and the second phase being the deal announcement and implementation, as defined for this thesis.

However, the third phase of the M&A, the PMI, can have significant impact on the success of the overall merger. Research has looked into different aspects to define how to diminish negative effects in this phase.

Time constraints are a limiting factor for PMI success, which is why Morosini and Steger (Morosini & Steger, 2004) advice to allocate sufficient time to the integration process. In there research on major cross-cultural mergers, such as with PwC, DaimlerChrysler and Aventis, they foresee that a longer integration time frame gives the employees the chance to adjust to each other and restructure work processes to ultimately create synergies.

The creation of one **joint framework** is required, a framework that is tailored to a variety of people rather than to one specific group. In this category, it is beneficial to foster an atmosphere of support and understanding and to motivate the employees.

The realisation of this thought becomes visible in newly set performance criteria and a shared set of values that is written down in the company's code of conduct (Morosini & Steger, 2004). In accordance to this, the companies will have to be prepared to check their compatibility of management practices, their organizational structures and frameworks. (Olie, 1994)

Communication efforts have to be undertaken to officially recognize the inherent cultural and social differences as the merger proceeds. Furthermore, the integration of cultures is unavoidable. In the PMI, not only social differences in terms of geography, language or educational gaps have to be bridged, but also different hierarchical structures and processes have to be unfold and consciously recognized and consequentially allowing for adjustment (Maire & Collerette, 2011).

Sine qua non is the creation of **trust**, as the M&A process itself is an emotional turmoil for the employees, usually with only limited access to internal information and consequently with high uncertainty (Maire & Collerette, 2011). This topic will receive special consideration in the following chapter.

3.7.3 Strategies and Models for Post-Merger Integration

In the PMI there are different levels of seniority involved. In general, the senior management leads the post-merger integration process on a strategic level. Different department managers merge their specific departments on a structural level. Additionally, and depending on the company, there are specially designated, so-called *Integration Managers along with a project team*, who are acting as mediator between the two merging parties (Maire & Collerette, 2011).
Teerikangas (Teerikangas, Véry, & Pisano, 2011, p. 653) defines the term 'integration manager' as a "term used for the project manager that the acquiring firm appoints to be responsible for coordinating all activities related to successfully integrating the acquired firm into the acquiring firm's operations and organization, as well as coordinating the work of those involved in the integration activities".

The Integration Manager's tasks are spread across different functions, such as communications, education, accounting and change management. This individual is charting how the operations of the companies will be combined, if the integration deadlines and the performance targets are met and is responsible for educating the new employees about the new parent company (Ashkenas & Francis, 2000). The integration manager and his team typically and, at best, are active from deal announcement onwards until at least the first 100 days after the acquisition. Research showed that the involvement of the integration manager in early stages, before the acquisition is closed, is advisable as there is a strong information overlap between the information gathered during the acquisition and the information needed for the integration (Behringer, 2013). This way, it is ensured that the same objectives, as well as the same information are transmitted. Furthermore, it mitigates the risk of the merger implementation to be detached from the integration process (Maire & Collerette, 2011; Teerikangas et al., 2011).

For the PMI process there is no fixed set of rules or theory that is followed. In fact, it is rather a strategy which is tailored to the acquiring company's desired outcome given, as discussed before, its motivation for the M&A.
However, on a general basis, some factors of PMI receive special consideration, such as the degree and the speed of integration that has to be set.

The degree of integration considers the depths of the integration. There are three overarching concepts that are considered. The 'stand alone' concepts keeps the acquired firm as independent and unchanged as possible and is therefore considered the concept with the least depth of integration. Frictions are low for this concept, as the impact on the bought-out company is little. This degree of integration is often used for conglomerate M&As. Furthermore, the limited depth of integration is not an issue if the product portfolio or the geographic reach do not overlap, as well as if there are significant discrepancies in the quality. This however, is not to be mistaken, with the success of the company, but much more with catering the products to different customer groups with different price sensitivities. Nevertheless, the acquired company will still have to report back to the parent company and request approval for investments, as well as the management structure will be knit closely to the parent company's structure. Additionally, the accounting, controlling, finance and generally the operational departments will be monitored more closely (Behringer, 2013; Marks & Mirvis, 2011).

The 'absorption' is at the other end of the continuum, when the acquired company is fully absorbed and integrated in the acquiring company. Procedures, structures and cultures are imposed on the acquired company. The acquiring firm forces the new identity onto the acquired firm. In general, this happens when a relatively small company is bought-out and the acquiring company is dominant (Behringer, 2013).

Example: GE Capital Integrations Workshops
General Electric's financial business line describes the integration process as follows: "Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced and implemented as soon as possible after the deal is signed – within days if possible. Creeping changes, uncertainty, and anxiety that last for months are debilitating and immediately start to drain value from an acquisition." The first employee workshops makes clear statements regarding the acquiring firms tone: "(The) GE Capital business leader, the integration manager, and other executives describe what it means to be part of GE Capital – the values, the responsibilities, the challenges, and the rewards. That includes a presentation and discussion of the standards required of a GE Capital business unit, including a list of approximately 25 policies and practices that need to be incorporated into the way the acquired company does business." Source: Ashkenas, R.N.; deMonaco, L.J.; Francis, S.C.: Making the Deal real: How GE Capital integrates acquisitions, HBR (1998), p.165-178 in (Behringer, 2013)

Finally, there is the 'best of both' concept, which tries to transfer all factors of both companies together. This concept is the most time-consuming and is of high sensitivity. However, it reduces the probability of resistance. This degree of integration demands from the employees of the acquiring side to adjust to new processes, structures and behavioural patterns, though they might perceive themselves as the superiors in this M&A. This concept is most often to be found as so-called 'transformation' where two companies that are on a par with each other (mergers of equals) create a new, third entity (Behringer, 2013).

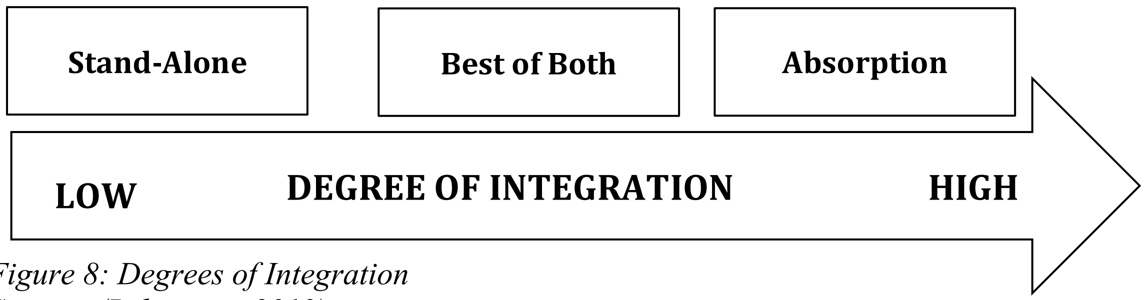

Figure 8: Degrees of Integration
Source: (Behringer, 2013)

A second important aspect of the PMI is the speed of the process. The end of the acquisition process and the shift of power to the acquiring party marks the moment for the introduction of change. However, the question regarding the speed of change is at times harder to determine.
Strategic management differentiates between the revolutionary and evolutionary speed. L.E. Greiner shaped these concepts and he defines: "The term *evolution* is used to describe a prolonged period of growth where no major upheaval occurs in

organization practices” and “The term revolution is used to describe those periods of substantial turmoil in organization life” (Greiner, 1972, p. 1).
In the context of PMI, the revolutionary speed of change makes a clear cut. It means that there is a fixed point in time which marks a paradigm shift towards something new, in this case the organization as a newly constructed entity. This speed of change highly depends on centralized power and moderate to no resistance. In the context of M&A, this form is preferred as it reduces the time of high uncertainty for the employees and the customers to a minimum.

In the context of PMI, the evolutionary speed of change allows the company to examine and keep former experience that proved to lead to success and to develop and derive strength on this basis. Changes happen gradually, over a long time frame and incrementally. Though, the single steps seem to be negligible in impact, the great picture shows a significant change process (Behringer, 2013; Marks & Mirvis, 2011).

Chapter 4 - Culture

4.1 Culture - A General Introduction

As early as the 1980s, Jelinek at al. (Jelinek, Smircich, & Hirsch, 1983) provided a comprehensive overview of definitions of culture, dating back to the 1960s and branched out into different areas of research. One definition provided by Pettigrew (1979) describes culture as "a family of concepts," (e.g. symbols, language, social drama and rituals). Berger and Luckmann (1967) interpret culture as another word for social reality, describing it as a product and process to shape human interaction. The interpretation of the concept 'culture' is vast, which is advantageous and disadvantageous at the same time (Lachman, Nedd, & Hinings, 1994; Weber, 1996). It allows all variations of culture to be part of the term, though at the same time the concept does not have a defined border. Furthermore, every researcher who is involved in the process has a cultural background that will influence and shape the definition of the term in his or her own way. While scientific research classifies this as biased, research illustrates that culture is an inherent component of the human being, reflecting the ever-changing nature of the term.

As this thesis focuses on the influence of national culture, the concept does not only have to be sharply distinguished from the concept of corporate culture. Much more, the limitations of the concept 'national culture' need to be highlighted in order to put the findings of the thesis in context with the limitations of the term. National boundaries represent an easy and convenient way of distinguishing national culture from other forms of culture. However, national culture does not start, nor end at national borderlines. There is not one nation whose members share the exact same cultural heritage or belief(s), nor do they share a general pattern of how things should be or how they should be done. Nonetheless, factors such as the political system, the economic situation, the climate or geographic condition, the history and language, even the racial mix and the quality and structure of the educational system, shape preferences and expectations of an individual (Erel et al., 2012; Larsson, 2001).

Adler (Adler, 2008) criticises that many managers underestimate the influence of national cultures, and are of the opinion that corporate culture can moderate or even substitute for it. Managers tend to think that the organizational culture is a stronger tie, and therefore, employees are more similar than dissimilar even though they have different national backgrounds (Şliburytė, 2005).

4.2 Cultural Dimensions and Organization – An Introduction

The field of research in regards to culture is so widespread and vast that for the following analysis it will only be feasible to touch upon the most well-known and major concepts that were developed over the last 30 years.

To connect the cultural dimension(s) of the thesis best possibly to the M&A perspective that this thesis aims to take, the cultural theories will be split up between cross-national comparison studies and intercultural interaction studies.
Cross-national comparison studies investigate how approaches to M&A differ across nations and cultures. However, **intercultural interaction studies** explore the effects of cultural differences on the M&A process (Stahl & Javidan, 2009).

4.2.1 Cross-National Comparison Studies

Many strong forces and differing factors influence a merger or an acquisition. One of these forces is culture. Culture may have an impact on various phases of the M&A. However, in this thesis the primary focus lies on the PMI. While cross-national comparison studies do not focus on the PMI in particular, there are specific implications, which influence this phase.
The argumentation goes much more along the lines of a cultural imprint that the company has due to its national heritage. This pre-setting of the organization predetermines many variables, such as the mode of entry, the motives for the M&A, the weighing in the due diligence process, as well as the kind of control or management systems that are put into place. Ultimately, it has indirect and direct influences on the PMI (Stahl & Javidan, 2009).
Angwin (Angwin, 2001) describes the implications of cross-national comparison studies with an example from German managers. If a German company is bought out by an organization that forces a high level of integration upon them, paired with a loss in autonomy for the employees, the German company is more likely to have problems with the resulting loss in autonomy and the higher level of supervision. This general statement is underlined by e.g. the existence of a comparably large body of workers unions in the case of Germany. While the generalizability of those statements is up for discussion, Calori et al. (Calori et al., 1994) provide another example. Comparing French and British acquisitions, they found that the French prefer transferring managers to their new acquisitions to connect and control the acquired company such as in a headquarters-subsidiary relation, while the British rather prefer a hands-off approach. Other researchers investigated acquirers' behaviour in the PMI and labeled US acquirers as "absorbers", the French as "imperialists" and the Japanese as "preservers" (Child, Faulkner, & Pitkethly, 2001 in Stahl & Javidan, 2009). Furthermore, they discovered that different nations prefer different integration tools. While US companies use HR tools to adjust the acquired company to the parent company, Japanese acquirers tend to follow a long-term strategy in which lifetime

employment, a steady career progression, and seniority-based promotions are key elements.
The cross-border facet of M&A requires the acquirer to adjust to commonly agreed-upon best practices, such as a team-work-based work or performance –related pay. While some pre-merger or merger activities do not trigger a differentiable dissimilar reaction in different national contexts, the PMI typically is contingent on cultural background.
In conclusion of the cross-national comparison studies, it can be said that the acquiring company is as much predisposed in their approach to integration, as is the acquired company in they way they react to this approach to integration (Goulet & Schweiger, 2006).

4.2.2 Intercultural Interaction Studies

While the cross-national comparisons looked at the influence of national cultures on the M&A approach, the **intercultural interaction studies** focuses on the step after. The perspective is changed as now the effects of culture from 'within' the M&A process are analyzed. The research evolves around questions such as how differences in culture affect the reactions and the behaviour of employees in the M&A process. Does a cross-border M&A cause a different new culture as opposed to a domestic M&A? Finally, this perspective investigates the problems and frictions that will be faced in the M&A process and how to overcome those, assuming different national backgrounds.

The dominating concept in this field of M&A integration research is the "cultural distance" paradigm. Culture per se is complex, intangible, and subtle, and therefore, by nature, hard to conceptualize. Nonetheless, the establishment of a measure to estimate the 'distance' between cultures is a first step in research to make the concept of culture tangible and quantifiable. This stream of research centers on the cultural distance hypothesis. This hypothesis states that costs, risks, and difficulties in cross-cultural contact, arise due to growing cultural differences between two individuals, groups, or organizations (Stahl & Javidan, 2009).
Kogut and Singh (Kogut & Singh, 1988) first proposed a framework for cultural distance, which is widely used in the literature on cross-border M&A (Stahl & Javidan, 2009). Their concept is an index, which is based on different variables, such as the firm-level variables (diversification, country experience, multinational experience, asset size), industry-level variables (industry variables: R&D and advertising, dummie variable: manufacturing and service), and country-level variables (cultural distance, uncertainty avoidance). The variables of interest are the country-level variables. One tries to quantify the perceived ability to manage the absolute cultural attitudes towards uncertainty avoidance, and the other one is concerning the relative cultural distance between the country of the acquiring company and acquired company's country (Kogut & Singh, 1988). Kogut and Singh's assumption is that there is a direct relationship between cultural differences and M&A performance (e.g.

top management turnover, manager's evaluation of post-acquisition performance, return on equity, sales growth, etc.). The index compares organizational or national cultural differences to assess similarities and correspondence (Coisne, 2012). The model is based on Hofstede's dimensions 'uncertainty avoidance' and 'cultural distance'. Hofstede's model is based on four variables according to which one can differentiate between nations and their cultures. The basic four variables in Hofstede's work are comprised of uncertainty avoidance, individuality, tolerance of power distance, and masculinity/femininity. Hofstede, who can be seen as the founding father of the structured cultural research, conducted over 88,000 interviews between 1968 and 1972 with national employees at foreign subsidiaries of a large American corporation. The results of the research suggest that for each country, a certain value for each of the four scales can be generated. All four values of the variables combined then draw a comprehensive picture of the country that is investigated (G. Hofstede, 1980; Geert Hofstede, n.d.; Kogut & Singh, 1988). Although, **Hofstede's** work is considered ground-breaking by being the first theoretical framework in this field of research, it has not only received much attention, but also gave reason to major criticism. This criticism centers on various aspects of the work: the internal validity of and the limitations to only four dimensions (Javidan et al., 2006) , as well as the method of constructing the scales, just to mention some (Kogut & Singh, 1988).

Returning to Kogut and Singh's index, it faces similar constraints as Hofstede's model, despite its popularity in cross-border M&A research. The major points of critique are that the index implicitly assumes that the differences in the scores of each variable are equally important. However, as each cultural dimension may have a different impact on the composite measure, the index tends to mirror a generalized view. A larger distance on one variable added to a smaller difference of the second variable might return to a similar index as a generally balanced distance on both variables. Additionally, to reflect the differences in mergers and acquisitions, the importance of each variable should be adjusted to the particular company, the industry, and to the respective countries of origin of the acquiring and acquired party. Extending the critique to the field of cultural research, the interrelation between variables is so complex that an index or model will be unlikely to distinguish between the different kinds of forces for correlations. An example would be a company with high power distance merging with a low power distance company. Correlated to a long-term planning attitude of the acquiring party, this may have a balancing effect, whereas when the acquiring company is short –term oriented, the issues emerging from the power distance may not be settled, as they do not become as visible in the short-term orientation (Stahl & Javidan, 2009).

After having assessed the beginnings of the intercultural interaction studies, the attention is now directed to more recent developments in this area of research. While Hofstede's research dates back to the 1970's, and Kogut and Singh's index to the late 1980's, the development of cultural measures and indicators has not stopped. One of the more current research projects is the GLOBE (Global Leadership and Organizational Behaviour Effectiveness) project. Having Hofstede's comprehensive research in mind, the project was initiated to overcome some of the critical factors of

Hofstede's research, to move beyond his approach, and to design a cross-culturally developed, theoretically-sound, and empirically verifiable construct (Javidan et al., 2006). The values and assumptions that were then made around a quarter of a century ago, were modernized and put into practice in 1994.

Around 150 researches (the so called 'country co-investigators') collected data from over 17,000 managers with a background in 61 different cultures and societies. The 150 researchers, who conducted focus groups and individual interviews with middle managers in food processing, finance, and telecommunications industries in their respective countries, did the initial centerpiece of work. Their findings were consolidated by the Principal Investigators and the Research Associates into items for culture and effective leadership (Javidan et al., 2006). The central question that the study tries to answer is: In what way are human communities different or similar, and why?

The GLOBE Project detected nine cultural dimensions to shed light into the discussion of this question.

Dimension	**Explanation**
Uncertainty Avoidance	Extent to which members of an organization or society strive to avoid uncertainty by reliance on social norms, rituals, and bureaucratic practices to alleviate the unpredictability of future events
Power Distance	Degree to which members of an organization or society expect and agree that power should be unequally shared.
Institutional Emphasis on Collectivism vs. Individualism (I)	Degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.
Family or In-Group Collectivism (II)	Degree to which individuals express pride, loyalty and cohesiveness in their organization or families
Gender Egalitarianism	Extent to which an organization or a society minimizes gender role differences and gender discrimination
Assertiveness	Degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships
Future Orientation	Degree to which individuals in organizations or societies engage in future-oriented behaviours such as planning, investing in the future, and delaying gratification

Performance Orientation	Extent to which as organization or society encourages and rewards group members for performance improvement and excellence.
Humane Orientation	Degree to which individuals in organizations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring, and kind to others.

Figure 9: Cultural Dimensions of the GLOBE Project
Source: (House et al., 2002)

The first six dimensions are derived from Hofstede's four -later five- dimensions of culture. Uncertainty Avoidance and Power Distance are matching concepts with Hofstede. The first collectivism dimension measures the influence of society, as reflected in regulations, social programs, and institutional practices. The second form of collectivism measures the in-group influence. The in-group is e.g. the family or an organization. How much pride or loyalty to the family or the organization does the individual show? The next two dimensions, the Gender Egalitarianism and the Assertiveness, follow a similar idea as the Masculinity/Femininity dimension by Hofstede. Those dimensions inquire how much the behaviour and the expectations towards men deviate from those for women. Assertiveness, on the other hand, inquires after the degree of aggression and potential for confrontation. The Future Orientation dimension focuses on the temporal mode of the society and it studies the attitude of the individual towards investing in and planning for the future. Performance Orientation refers to the need for achievement and how society values and encourages the improvement of performance for its members. Finally, when the society rewards altruistic behaviour and encourages caring and generosity, it has a high degree of Humane Orientation.

The nine dimensions that the GLOBE study proposes can be used on an organizational and the societal level, opening this study's applicability to several fields of research. The outcomes of the study are manifold, and therefore, following only those relevant for the thesis will be highlighted. House et al (House et al., 2002) came to the conclusion that societal cultural values affect the leadership behaviour of leaders. Societal values shape norms and consequently, they shape the behavioural patterns of leaders. Those, in return, establish and constantly influence the culture at the organizations at which they are working.

The "so-shaped" organizational culture and the established practices will change and adjust leadership styles of the leaders. External contingencies, such as the size of an organization, the technology it uses and the environment that it is settled in, effect the organization. This requires the organization to change accordingly, to be able to perform effectively, and to compete in the market. This causes a reciprocal process, as it affects the individuals in the organisation, who, in turn, will adjust, or if they are new to enter the organization, will be chosen in accordance to those values (House et al., 2002).

4.3 Touchpoints of Culture and Mergers & Acquisitions

The first official touch point of mergers and acquisitions and cultural implications, is already at an early stage of the M&A process.

4.3.1 Due Diligence

The Due Diligence process is a form of investigation taking place before a major investment. In the process of an M&A deal; the Due Diligence is the evaluation phase of a target company and its assets by the potential acquirer. It needs to be acknowledged that there is not only one form of M&A Due Diligence, but there are several forms, such as the financial Due Diligence, the macro-economic Due Diligence, or the legal Due Diligence, to name a few (Angwin, 2001). The cultural Due Diligence tends to receive the least attention, and often not all forms of Due Diligence are conducted but only those perceived as relevant for the upcoming transaction.

Companies tend to ask if cultural Due Diligence is required or even necessary. Often there is disagreement about what kind of information a cultural Due Diligence can provide, and the quality of information that can be expected. Can the Due Diligence results be used as decision criteria for or against an M&A, or will they facilitate the PMI? In the Due Diligence process, many companies run into the problem of distinguishing between corporate and national culture. The measurement of cultural factors is a major obstacle for companies to engage in this form of cultural Due Diligence, and many companies are shifting to the creation of quantifiable measures of culture, to be able to assess the target company ad, and to compare the indices with other possible acquisition targets.

Furthermore, companies looking into how feasible it is to change an established culture or how to create a new culture from scratch, as well as how this is affected by a culture that was priory weak or especially strong. More companies want to learn and investigate the interrelation of corporate, industry, and country culture and how the interaction will affect the management, especially when looking at a combination of all those forms of culture in a cross-border M&A.

The cultural Due Diligence process may include, but is not limited to, the assessment of language, customs, and communication (Angwin, 2001). The process can be divided into different stages. In the first stage, mostly the middle and upper management are involved to conduct the initial interviews. This is due to confidentiality reasons, as a public M&A preparation might have an impact on the companies' market value. However, best-case examples show that employee representatives should be involved at this stage already.

In the second stage, a sample group of employees is interviewed in single and group settings to determine the cultural implications on all levels of the organization. Oftentimes, a more detailed and broader Due Diligence is only viable after the completion of the deal (post-completion due diligence), as information from human resources will only be disclosed after the deal is closed. On a critical note, many researchers, such Steinle et al. (Steinle, Eichenberg, & Weber-Rymskova, 2010) see the cultural assessment that acquiring companies undertake mostly as ill-structured and having an 'intuitive' rather than a rational or reasoned approach.

4.3.2 Corporate Culture

When investigating the cultural Due Diligence process, the distinction between different forms of culture tends to be blurry and creates confusion in the interpretation of research outcomes.

There are mainly two concepts of culture that need to be sharply distinguished from each other. First, this is the corporate culture, and second, it is the national culture.

There are many definitions of corporate culture, however there is not one commonly used, official definition (for an overview see Schmid 1996, p.135ff). Often the definitions of corporate culture tend to be close to definitions of culture in general. One of the more commonly used definitions in literature is from Edgar H. Schein (Schein, 2004): "*Organizational 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 adaption 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.*"

The different parts of this statement can be dispersed and evaluated as single terms. The '*pattern of basic assumptions'* refers to values and norms concerning certain themes, just as the relation to the environment, the nature of human activity or the nature of human relationships. The '*problems of external adaption and internal integration'* gives further and more detailed definition of previously mentioned norms and values. Finally these norms and values have to be validated as relevant and found to be good, '*to be taught to new members'*. This is part of the corporate socialization process for new employees into the corporation, with concrete processes (salary and bonus pays, etc.) as well as symbolic acts (e.g. employee of the month) (Schein, 2004).

Larsson and Lubatkin (Larsson, 2001, p. 1576) describe, "organizational culture represents an imperfect shared system of interrelated understandings that is shaped by its members' shared history and expectations." Organizational culture always has a deep impact on individual commitment, satisfaction, productivity and longevity within an organization, especially as individuals tend to be prone to groups with similar values (Stahl & Voigt, 2008).

Corporate cultures, especially strong corporate cultures, take over a facilitating role in the creation of a relationship between the individual and the social unit. While norms and values align actions, they may help the employee to orientate in the organization. Conciseness and the rootedness of the culture to a specific company's values, together with a large base of individuals sharing the experience for which the culture is established, can smoothen and shorten the decision-making process, facilitate the communication and implementation process, while simultaneously needing a low grade of control. However, strong corporate culture can become a hurdle for innovation. This is disadvantageous when the corporate culture does not allow for alternate problem coping strategies for existing or upcoming challenges.

Corporate culture may not be misunderstood as an arbitrarily interchangeable variable, but as a complex and dynamic phenomenon. Science tends to be critical about the practice's wish to alter corporate culture. Two opposing positions in this field of research are the 'culturalist' and 'interventionalist' positions. The first believes that the corporation is culture itself and uses the term culture only as metaphor for the constantly changing, complex social incidents, which cannot be willingly changed. The second understands culture as one of many variables that the organization consists of; consequently, it can be changed and shaped through direct intervention.
A third, more intermediating interpretation, tries to align the two opposed standpoints and hypothesizes that culture per se can be changed but due to its high social complexity the change process is a long-term process (Langer, 1999, p. 104ff; Schreyögg, 1991).

4.4 Frameworks for the Cultural Post-Merger Integration Process

When with Hofstede's discussion of cultural dimensions the 'cultural distance' hypothesis was established, the focus shifted towards the cultural differences between human beings in group-contexts and in organizations in general to explain difficulties in the PMI, as well as related costs and risks. While Hofstede tried to measure a range of factors, which span from management style and family ties (individualism/collectivism), the way of doing business, to work related values such as hierarchy (Power Distance) and order taking (Masculinity/Femininity), further research was majorly influenced by this first comprehensive overview of cultural influence factors.

This thesis focuses on two major theories, the Acculturation Theory and the Social Identity Theory. Subsequently, both theories will be presented. The major contributions of research will be highlighted and the theories will be critically assessed.

The aim of the thesis is to highlight those cultural theories, which approach the integration of culture in the PMI from different angles. Both theories do not specifically focused on national culture, but rather generalize culture as phenomenon. Each theory will be examined regarding its transferability to the concept of national culture. Furthermore, the two theories are chosen deliberately to show their great compatibility for cultural assessment. This compatibility study will follow the comprehensive introduction to the theories.

4.4.1 Theory I: The Acculturation Theory

Acculturation is a concept that is originally from anthropology. J.W. Berry introduced this concept to the M&A research in 1980 and defined acculturation as “changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions” (Berry, J.W. in Nahavandi & Malekzadeh, 1988). The M&A research understands the cultural component as organizational culture that is defined by values, beliefs and practices that are undertaken in an organization. As the individuals and groups that the organization comprises in turn influence the general organizational culture, the organizational culture is rather a connector between several subcultures or a “network of integrated subcultures” (Elsass & Veiga, 1994; Larsson, 2001). The different subcultures can have different degrees of acculturation or a different speed of acculturation, which influences the acculturation process in general. The acculturation process can be divided into four different modes. The modes portray different processes, by which two groups adjust to each other and resolve emerging conflicts. Those four modes are: deculturation, separation, assimilation, and integration (Tadmor, 2006).

Deculturation describes the detachments of the old culture and the problem to replace it by the new culture. The respective party (usually the acquired party) looses its cultural and psychological contact with the one culture and simultaneously cannot or does not want to assimilate in the new culture. For this party, it results in a shift away from the organization, causing disintegration, rather than an integration or assimilation. This form of acculturation is most likely to lead into ‘acculturative stress’, which will be reviewed at a later point in this paper (Nahavandi & Malekzadeh, 1988).

Separation happens when none of the parties gives up their particular culture and the parties preserve their respective culture. The subordinate culture then separates itself from the dominant, most often the acquiring company’s culture, and may be able to work as separate unit under the financial control of the acquirer. However, this is at the discretion of the dominant culture, as it implies that there will only be minimal exchange between the two cultures, prospectively resulting in problems (Nahavandi & Malekzadeh, 1988).

Assimilation takes place when one party, e.g. the acquired company’s employees, adopt the culture of the acquiring company. It is always a unilateral process where one party willingly gives up their cultural ties. Mostly, this can be observed in cultures with structural problems and dysfunctions that they hope to overcome by assimilating to a new culture (Nahavandi & Malekzadeh, 1988).

And finally, integration occurs when the two cultures change and adjust to some degree without one dominating the process. While both cultures mutually contribute and show higher interaction and adaptation, none looses their cultural identity. The acquired party keeps basic beliefs and cultural practices, but willingly integrates in the overall structure of the acquirer. Once more, this mode of acculturation is only possible, if the dominant culture allows this degree of independence. Nevertheless, it has to be said that this form shows a lower likelihood for problems, as both cultures will to some degree adjust to each other while not trying to dominate (Nahavandi & Malekzadeh, 1988).

Which of the four acculturation-modes is chosen is highly variable and depends on a variety of factors. Those factors include the kinds of strategic combination (merger versus acquisition) and the kind of M&A (horizontal, vertical, product or market-related, etc.), but also factors such as the size of the company, the industry it is operating in or the history of the company, not be spoken of the motive for M&A and the speed of integration hereafter. Additionally, the culture itself has an impact on the mode that is triggered for the acculturation. How related are the cultures of the two companies and how attractive is one culture to the other (Seo & Hill, 2005)?
From the acquired company's side, the willingness to change the own culture and the organizational practices, as well as the satisfaction with the own culture in comparison to the attractiveness of the new culture, will determine the preferred mode of acculturation. The below noted model describes the two major factors that come into play. For example, a high value placed on the preservation of the own culture, as well as a low perceived attractiveness of the acquiring culture will most likely lead to the separation as acculturation mode.

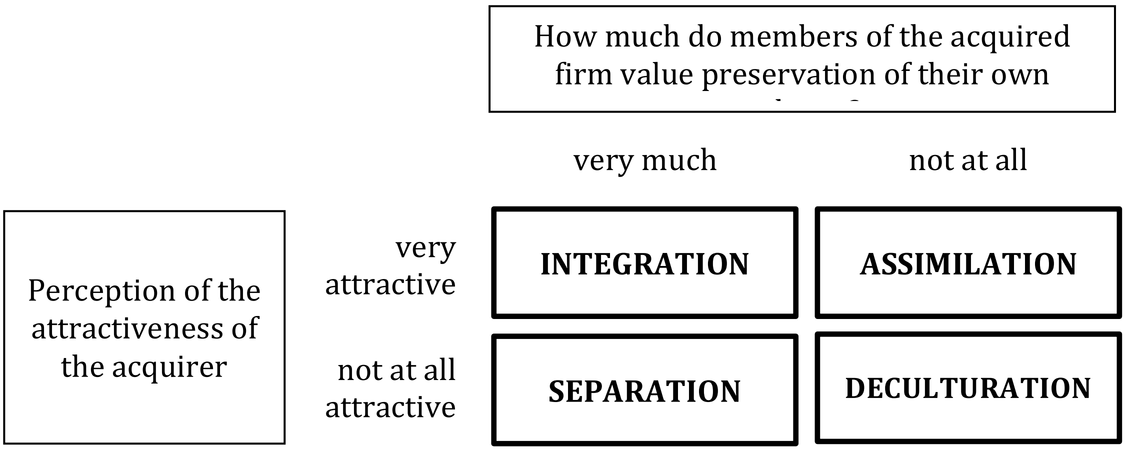

Figure 10: Acquired Firm's Modes of Acculturation
Source: Nahavandi &Malekzadeh nach Berry,1983

For the acquiring companies side, the focal points shift to two other measures. On the one hand, this is the degree of multiculturalism, which describes the value that is placed on cultural diversity and the willingness to tolerate and encourage it. On the other hand, it is the diversification strategy, which refers to the motive of the merger, the relatedness of the companies in terms of their operating business and the industry that they are in. For example, if the organizations are related in their business operations, but the company does not allow for several subcultures in their operations, their rewards conformity or their adherence to unique goals and business practices (unicultural), assimilation will most likely be the acculturation mode that is triggered.

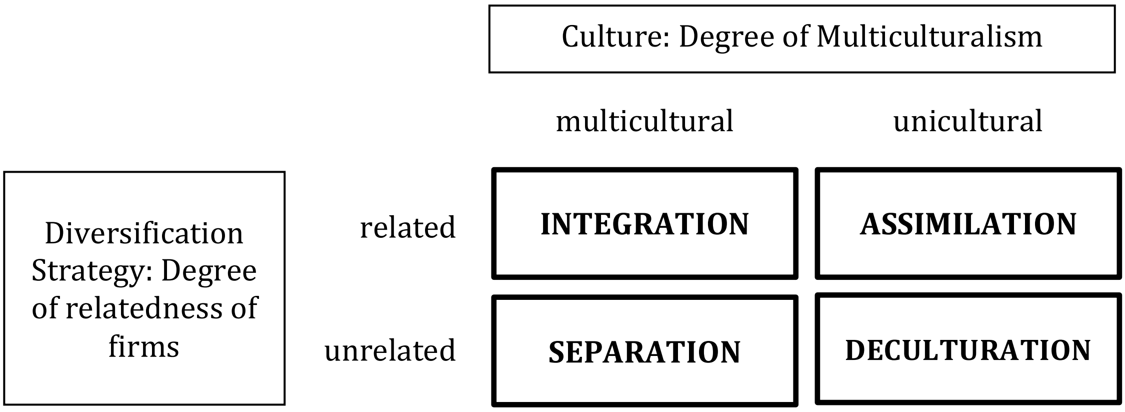

Figure 11: Acquirer's Mode of Acculturation
Source: Nahavandi &Malekzadeh nach Berry,1983

Acculturation is a synonym for various cultural conflict situations that can be triggered by the inability of two cultures to agree on one mode of acculturation. This problem is called acculturative stress. Berry defines the concept as "individual states and behaviours that are mildly pathological and disruptive" (Nahavandi & Malekzadeh, 1988, p. 84). It occurs when the two groups of employees have a strong desire to keep their separated cultures, while the organizational integration forces are strong (such as the merger of specific location, departments, and positions). Acculturative stress is triggered by the inability of the two involved parties to 'agree' on one mode of acculturation, and not as often misperceived, to have the same culture from the very beginning. As long as congruence on the mode of acculturation is achieved, acculturative stress can be avoided. However, if acculturative stress is triggered, it leads to resistance, and in consequence, to conflicts in the organization. (Nahavandi & Malekzadeh, 1988)

One of the most often used and heard words in relation to culture is 'culture clash'. While this term is popular, it also describes one of the more developed areas of M&A research. (Larsson, 2001; Marks & Mirvis, 2011) The first occurrence of a culture clash happens when employees consciously recognize differences in every day life and decide that this way of doing is fundamentally different and inferior to their way of doing business. These differences may be recognized in different work situations. For example, how does a team work together? How do they communicate, and do they use a special language do to so? How strong is the commitment to work? Or how much managerial authority is shown?

Uncertainty is a factor that plays a crucial role in the occurrence of culture clash, for the more one party feels threatened by the other for becoming redundant, the more they will adhere to it. Furthermore, culture clash can lead to higher turnover rates, low morale and a general loss in quality and productivity of the company. (Larsson, 2001; Seo & Hill, 2005) It is important to acknowledge that

Barkema et al. (Barkema et al., 1996) extend the theory to the situation of cross-border M&A. They developed the term "double-layered acculturation", thereby referring to corporate culture being one layer and the national culture being a second layer that needs to be explored separately. While the layer of organizational culture struggles with political and organizational practices and emerging conflicts, the layer of national culture is much more concerned with cultural stereotypes, manifestations of nationalism or in worst cases, xenophobia. In addition, the language barrier causes communication problems, while the organization is affected by differing legal systems and organizational practices.

Gatley et al. (Gatley, Lessem, & Altman, 1996 in Şliburytė, 2005) summarized the effective forces of corporate and national culture in relation to domestic and cross-border M&A. The following table provides a comprehensive overview:

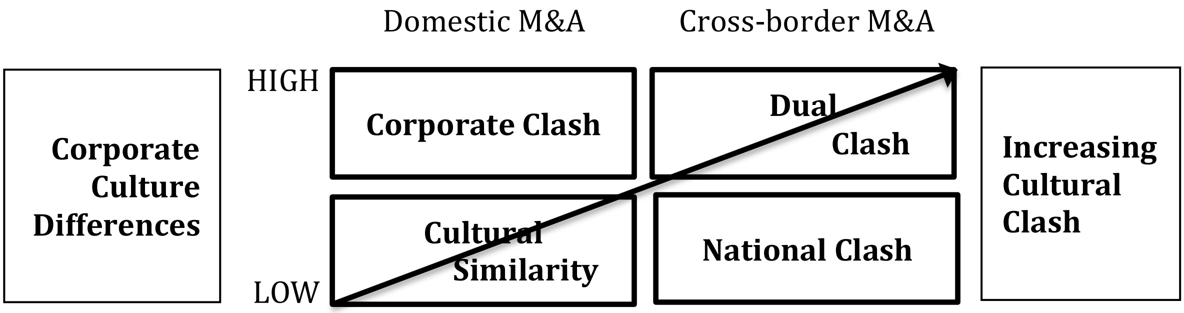

Figure 12: Corporate and National Culture Clashes
Source: laimona Sliburyte, 2005

Gatley describes the cultural differences at one axis, and differentiates between domestic and cross-border M&A on the other axis. He proposed that in a domestic merger with low differences in the corporate culture, we may expect cultural similarity and no clash. However, strong differences in the organization structure can lead to a culture clash on the corporate level ('Corporate Clash'). In cross-border M&As, he differentiates between a clash that is purely based on national culture problems, while the corporate culture is very similar ('National Clash'). Finally, if both cultural dimensions, the corporate and the national clash, he labels this the 'Dual Clash'.

In relation to cross-border M&A, Weber (Weber, Shenkar, & Raveh, 1996; Weber, 1996) points out that national culture differences have a stronger positive association with stress and negative attitudes about mergers than do organizational culture differences. Therefore, Larsson and Lubatkin (Larsson, 2001) proposed the thesis that the acculturation mode chosen in a domestic merger will most likely tend to be higher than in cross-national mergers, as they are subject to two cultural layers that could possibly clash. In their case survey method, they used a large sample of case studies as a base to quantitatively pool information. In their research, they used 50 case samples of Swedish and US companies between 1959 and 1988, of which 23 were US domestic M&As and 15 Swedish domestic M&As, as well as 12 Swedish cross-national cases. Their findings suggested that there was no direct cause relation between a culture clash and different national contexts, although this tends to be the popular explanation (Larsson, 2001).

Especially in M&A, the acculturation can be bypassed in two ways: members can leave the organization or members of one group of culture can be fired. While these are extreme ends of the acculturation process, these are phenomenon, which can be observed in the PMI. However, acculturation can have a majorly positive impact, which reaches further out as only in the context of M&A. From studies with expatriates, Tadmor (Tadmor, 2006) found that expatriates who manage to internalize values of both cultures which they are exposed to, will become more integrative complex as those who chose to separate or assimilate from the second culture they got exposed to. In return, this bicultural mindset increases the managers' capability to accept new ideas and enhance their problem solving skills.

It is important to note that the acculturation theory takes the perspective of the members of the culture of the acquired company. It investigates the adaptation process from the weaker part in the M&A to the stronger or dominating part. However, when evaluating the effectiveness of the theory, it has to be taken into account that it usually is the acquiring party's lens that is looked through, as described when evaluating the motives for M&A or the type of M&A chosen (Nahavandi & Malekzadeh, 1988).

Interventions

Acculturative stress can potentially be diagnosed before its manifestation. The pre-merger stage allows in the cultural Due Diligence the investigation of the cultural differences that exist between the organizations. This would help to anticipate and prevent potential acculturation problems.

Interventions at this stage are manifold and may include fostering multiculturalism, as well as a mutual willingness to learn about and from the opposite culture. Buono and Bowditch (Buono & Bowditch, 2003) suggest a series of workshops and presentations that give employees the opportunity to face and reflect on the other culture. This should prevent a comparison between the cultures and rather lead into one of the desired acculturation modes (Seo & Hill, 2005).

While the acculturation theory offers a broad spectrum of answers and explanations for the success or failure of cultural integration, the theory itself has to be critically assessed. For the theory, there is only little empirical evidence about the determinants of successful and unsuccessful acculturation. This is partially due to the sensitivity of the topic at hand and the unwillingness of companies to disclose this information, especially in the sensitive phases of PMI. Therefore, most of the theory is based on anecdotal, short case studies and qualitative examinations, instead of larger samples of data that would base the theory on solid grounds. (Larsson, 2001) There is one study that forms a good base for further expanding research on this topic. Cartwright and Cooper investigated in 150 formal interviews and 600 questionnaires, what pre-merger cultural attributes come into play to determine the post-merger acculturation. Larsson and Lubatkin (Larsson, 2001) build on the research work done and revealed that the acculturation, which typically happens in the PMI, is largely predetermined by the cultural attributes of the companies before the merger.

4.4.2 Theory II: The Social Identity Theory

The Social Identity Theory is a social-psychological theory of group processes and intergroup relations. The theory describes how individuals derive their identity from memberships in groups. This is referred to as self-concept or social identity and is contrasted with the personal identity (Terry & O'Brien, 2001). The groups analyzed cover organizations and professions. In the situation of M&As, several identities of an individual are affected. These can be the organizational identity, the professional identity, the work group identity or the national identity. The organizational identity, for example, is linked to specific attributes that the employee associates with his or her membership with the organization (Seo & Hill, 2005).
When the M&A is announced, the employee faces different threats from the upcoming and expected shift in the organizational identity. Therefore, the employee tends to attach more strongly to his or her groups, as this is what defines part of his/her identity.

While this theory, in positive terms, focuses on the realization of synergies, the creation of positive feelings towards the acquiring organization, and the creation of a shared identity, the M&A situation interjects with these objectives. Nevertheless, the theory provides a way to explain why different inter-group tensions emerge and how this leads to serious inter-organizational conflicts in the PMI.
In M&As, the acquiring company may feel superior to the acquired company, especially when the M&A undergoes an acquisition rather than a merger. Additionally, this goes along with the members of the acquiring company creating a feeling of superiority towards the members of the acquired company.

Party	Mindset	What to expect
Buyer	Air of superiority Drive to consolidate gains Urge to dominate the action	Headiness Urgence Power Moves
Seller	State of Shock Defensive Retreat Sense of Fatalism	Anxiety and Anger Resistance Hostility and Defeatism

Figure 13: Precombination Mindsets of Buyers and Sellers
Source: (Marks & Mirvis, 2001)

In this process, trust and distrust are major components that facilitate the formation of groups. Psychological research showed that people feel more attracted and safer in groups, which share the same values and act in similar patterns. This has a positive impact on the emergence of trust, while at the same time, reduces the potential for conflict. The converse argument is that if values are not shared, and people are fundamentally different, the creation of understanding and in consequence the creation of trust, is harder and the occurrence of conflict is more probable. Finally, human beings tend to attribute negative characteristics and intentions to the unknown. Given the setting of two groups, one group will consider the other as the out-group, not only attributing negative intentions to them, but also causing a certain level of suspicion concerning the out-group's members and their activities. Sitkin and Stickel (1996, in Stahl & Voigt, 2005, p. 162) describe the evaluation of the out-group by the in-group member as the out-group being "uniformly unethical or malevolent, incompetent, and ill-informed – (while) the in-group is viewed along opposite terms".
Putting this concept into practice with M&A's, the acquiring company's members perceive themselves as the in-group and the acquired company's member as the out-group. (Terry & O'Brien, 2001) From the perspective of the acquired company, this definition is reversed, considering the acquiring company's members as the out-group. The in-group-bias that is described, facilitates the separation between 'us' and 'them', and even goes a step further with 'us' versus 'them' (Marks & Mirvis, 2011). This thinking is even more distinct and accentuated when the group sees the opposite group as a threat, which is due to the nature of M&A's and inherent thought. Several factors of an M&A will facilitate the two groups to have in-group bias. These factors may be the size of a company, the industry it is operating in, the current strategy it is undertaking, the process of the merger, or any prior knowledge that the employees may have had before the acquisition.
Looking at the phenomenon of the social identity theory from the acquired company's perspective, the cohesiveness between the company members is surely going to be increasing. With an external threat such as an acquisition, it will exceed any cohesiveness that might have been there before the announcement of the acquisition and the M&A process might not only be viewed critically, but the takeover attempt might be resisted violently. From the acquiring party, this tension is accelerated by the attitude of superiority. An interesting finding by Marks and Mirvis (Marks & Mirvis, 2001) shows that the reactions in the acquired company are comparable to reactions to death and loss. Initially, there is denial and disbelief and later, the realization of the own vulnerability along with the anger at leadership for selling out.
An additional component is added if it is a cross-border M&A, and the group-bias is double-layered on a corporate and on a national culture level. Cultural differences facilitate the distinction between 'us' and 'them', as the attribution of stereotypes are easy and generalizable. (Stahl & Voigt, 2008)

The shift from one cultural identity to another is facilitated by the relative status of the groups to each other as well as to what extent the groups found these differences to be

legitimate. Should members not perceive the status differences to be legitimate, they will less likely give up their in-group behaviour and will more likely separate themselves from the other organization. This holds true for the acquired party, as well as for the acquiring party (Seo & Hill, 2005).
An advantage in the PMI that is facing strong in-group and out-group biases is the concept of self-enhancement. Every individual tries to achieve the most positive social identity through its group memberships. How favourable a group is, is evaluated by comparison with the out-groups. The acquiring company can use this as a base to overcome group-biases and to merge existing groups, because members of low status groups (groups that compare poorly to other groups) will aim to gain membership in high status groups. The employee of the low status organization (equals here the low status group) will be more prone to re-identify with the high status organization and will more willingly give up the low status identity of the former organization (Seo & Hill, 2005). In consequence, members of high status groups will try to stay a member of the group and they will also try to uphold the social categorization of the group, as it reflects positively on their self-concept (Terry & O'Brien, 2001). Social Identity Theory suggests that there are three strategies that low status group members may pursue in order to improve their social identity. Some low status group members will engage in group-focused strategies. These are aiming at improving the standing of the low status group by social competition or social creativity. While the first, social competition, is a proactive approach to change the negative standing of the in-group, the latter, is rather the whitewashing of the group's standing when compared to outgroups (favouritism). The third form, the individual mobility, should be the preferred way for a merging organization to move forward (Terry & O'Brien, 2001).
The PMI process has to make sure that the new organization offers an attractive and desirable identity, for which the acquired company's employees covet to shift to. Another option is to create one large group under conditions of cooperative independence, where employees from both organizations can re-categorize themselves in. This method of intergroup cooperative interaction is a well-known concept in psychology to reduce biases. In Social Identity Theory this intergroup cooperation enhances the intergroup acceptance, as it reduces the consciously perceived boundaries between the two groups. The newly created group perceives itself as one, rather superordinate group, not as two separate groups. The terminology of 'us' and 'them' is conflated into an inclusive 'we' (Gaertner, Mann, Dovidio, Murrell, & Pomare, 1990). How effective this strategy is partially depends on the outcomes of achieving this goal. Failure in this process may lead to the need to find a scapegoat, which would likely be found in the other group, to justify and explain the negative outcome (Olie, 1994).
A slight deviation from the former concept is the creation of overlapping membership. Overlapping membership is a favoured concept considering cross-border M&A, as this allows the members of a group to have multiple memberships without conflicting identities. In this case, members may belong to different groups, such as national

groups, on the basis of one set of criteria, while they may share the common identity of the organization, based on an other set of criteria (Olie, 1994).

Intervention

The general approach to a cultural change is to establish new goals and a new vision. This goes along with a tangible change that can be reflected in a new corporate logo (Ashforth & Mael, 1989), the elimination or consolidation of brands, and a merge of the corporate value statements. If these elements are new to both companies, or the management decides to adopt elements from only one organization or from both, they are adopted at the discretion of the M&A management and the acquiring company.

In the light of the Social Identity Theory, the idea of out-group and in-group biases can be extended to highlight new out-groups and thereby brake up old categorizations that existed within the company. For example, these out-groups could be competitors in the industry. Finally, there are disengagement efforts that the company can undertake to help the out-group members detach from their group. These may be so called 'termination ceremonies' and 'grieving meetings' where employees receive a platform to express their discomfort and unease with the situation and may thereby be able to let go of their old social identity (Seo & Hill, 2005).

In the case of overlapping membership, this may be achieved through the organizational structure, a common management program, as well as the rotation of management groups. This may help to overcome separate loyalties, and overlapping membership might eventually only be an intermediate step to the creation of one group (Olie, 1994).

Social Identity Theory has three main consequences that are of relevance. Firstly, individuals are more attracted by activities and characteristics that are closer to their own characteristics and beliefs. Therefore, if they found an institution that is reflecting similar values, they will support it and identify with it. In consequence, the identification leads to a higher commitment. A common example is the identification of US students with their alma mater as compared to European students measured by their willingness to donate after they became an alumnus.

Secondly, identification with a group fosters the outcomes of group formations, such as intragroup cohesion, cooperation, altruism and a general positive evaluation of the group. Loyalty to and pride in the group and its activities can be expected by the virtue of the common membership in the group.

Thirdly, once an individual is involved in a group and becomes a member of the in-group, the group's values and practices become more salient and the individual perceives it as unique and distinct.

A major finding of the Social Identity Theory is that a psychological group is not to be confused with interpersonal relationships. Even in the absence of similarity or interpersonal relation or even interaction, the individual can be loyal to e.g. a corporate culture (Ashforth & Mael, 1989).

4.4.3 Comparison and Compatibility – Theory I & II

At first glance, the acculturation theory and the social identity theory are two theories that do not directly relate to cross-border M&A. Both theories come from anthropology and social psychology respectively. In the context of cross-border M&A, they only recently received more attention (Stahl & Javidan, 2009).
To understand the influence of cultural dynamics of M&A, it is advised to go beyond a view that is strictly focused on national culture and look at the M&A process from a macro-perspective. Additionally, for a better understanding of the PMI, it is also important to look at the overall M&A process.
The initial research question of the thesis has to be altered for this process. Given the restrictions from research on national culture in particular, and the lack of frameworks proposed regarding the applicability in the context of organizations, the research questions needs to be broadened to: *What alternative organizational culture models can be taken into consideration to explain the influence of national culture on the post-merger integration process after cross-border M&A?*
A comparable approach was proposed by Seo and Hill (Seo & Hill, 2005) who developed an integrative framework based on six theories. Similar to the proposed framework at hand, they adopt a temporal approach, which highlights how different factors emerge as sources of problems in the M&A process. As one of the outcomes of their research, they suggested: "[...] social identity theory and acculturation theory predict similar outcomes, such as intergroup conflict and resistance, which implies a possible interaction effect between social identities and organizational cultures. Therefore, identifying, theorizing, and empirically testing the complex relationships among the different theoretical variables are promising future research directions" (Seo & Hill, 2005, p. 440).
Although, their method was broader in the approach, this study will show the interconnection of theories, while basing additional concepts upon the two main theories.
The two theories are explained on the basis of the information that this paper provided up to this point. The reader should bear in mind the motivations that lead to a merger and the kinds of mergers that exist. Furthermore, the temporal approach chosen, follows the M&A stages as discussed in chapter three. For simplicity reasons, the process is mainly divided into pre-merger, formal combination and post-merger integration stage. The theories are not generalizable to all kinds of combinations, as a certain degree of connection and diffusion between the two merging companies has to be taking place.

The picture illustrates the process that studies the compatibility and co-existence of the two concepts.

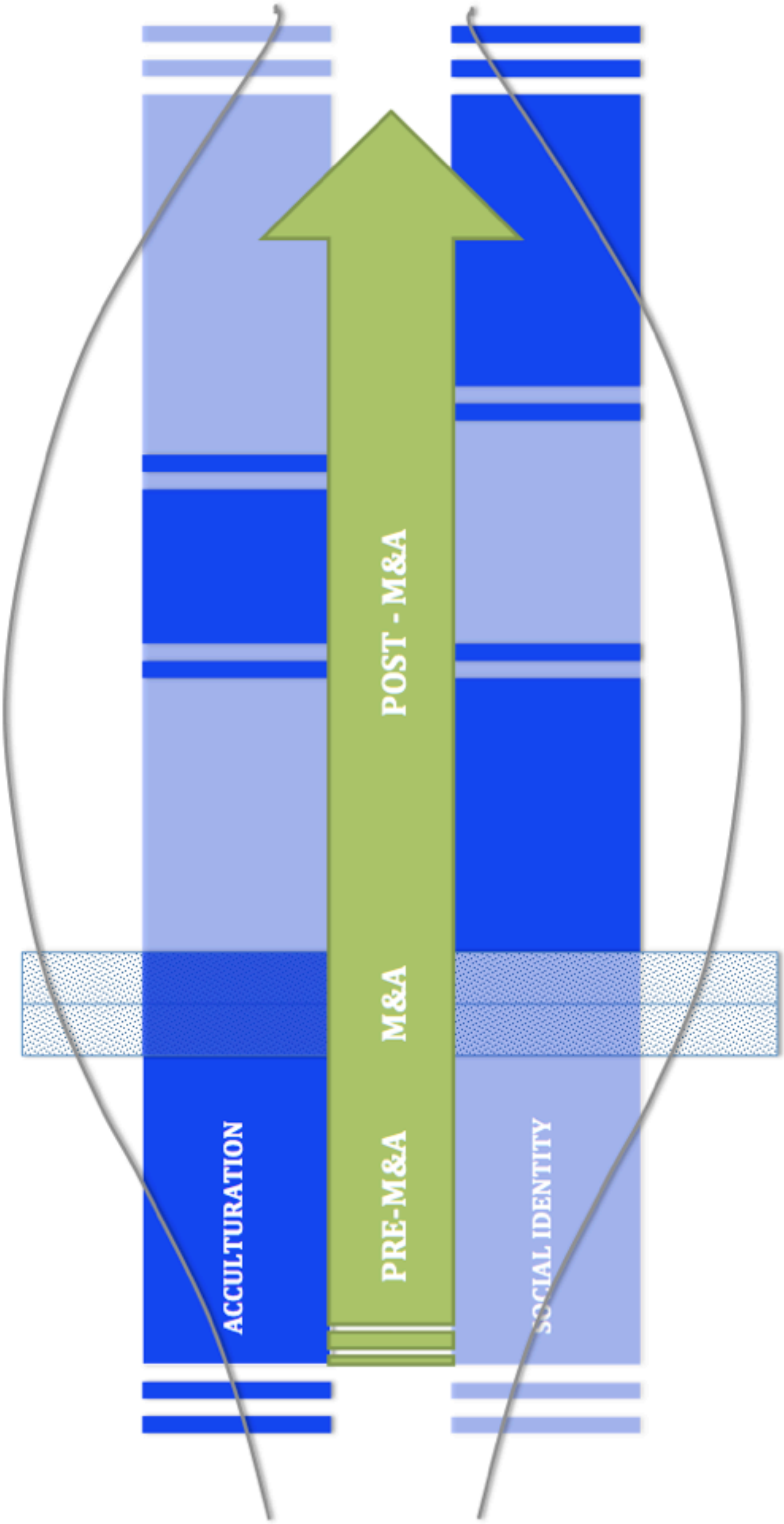

Figure 14: Compatibility Study
Source: own illustration

The Acculturation Process and the Social Identity Theory are approaching the M&A process from very different angles. The Acculturation Theory takes a broad look at the whole M&A process and explains the collision of two cultures on a broad level. The approach can be described as deductive. This means that in the process of the reasoning, the argument is going to be narrowed down. The perspective is 'top-down', because the Acculturation Theory generally speaks about two groups with different backgrounds that are merging or have to merge. While the theory also helps to understand the merger between bigger structures, such as two nations (e.g. former Eastern and Western Germany), here the theory will initially only be used in the context of organizations. The groups of an organization can be narrowed down subsequently, starting with the organization as a whole, to departmental structures, business units, physicals floors and teams. The smallest possible unit is the one-on-one interaction between two employees.
In contrast, the Social Identity Theory provides an inductive approach. This process is a 'bottom-up' process, as it evolves from the individual and personal stage of interaction. The findings of the theory can then be escalated to a higher level, which then involves teams, physical units, business units and departments, and finally the organization as a whole.
Interestingly, the description of the Acculturation Theory as a 'top-down' approach can also be used as an indicator of the influencing forces. The acculturation will more probably be triggered by decisions of the top-management of a company, for example with their decision to sign the merger agreement. On the other hand, the Social Identity Theory is a process that will be triggered on an interpersonal level.

The different perspectives that the theories take make them not only compatible, but they are also balancing out the weaknesses of the other theory respectively.

In this reflection on the compatibility of the two theories, we will start with hypothesizing the different influential strengths of the Acculturation Process during the merger process. In the pre-M&A stage, acculturation theory sensitizes both merging companies that–most probably- the different cultures will be colliding. This is why researchers of the acculturation theory point out that the Due Diligence phase of the Pre-M&A is instrumental for the initiation of the acculturation process. As described in the theory, the acquiring company needs to investigate what its own degree of multiculturalism is. On the other hand, the diversification strategy of the company will have an impact on how close the acquirer needs to or plans to integrate the acquired company. This may lead to the conclusion that the company might be open to different cultures or is already practicing a multicultural approach at their own operations. This does not necessarily mean that the company is very international in its employee structure, but could also mean that the way of doing business in one department is highly structured and hierarchical, while the operations in another department are flat and team-based. According to the Acculturation Theory, this qualifies a company to be seen as multinational, as it allows different ways of doing business within the organizational structure. Regarding the relatedness of the firms, we have to refer back to the knowledge acquired about the kinds of mergers that exist and the motivating factors that acquiring companies have in taking over a M&A. If the strategy of the acquiring firm is based on portfolio expansion, and the M&A would be considered a conglomerate M&A, the problems occurring can be hypothesized to be smaller in terms of culture. If the company is planning to keep a strict differentiation between the merging structures, accentuated by the fact that the companies are operating in different industries or different prices and consumer sectors, the diversification strategy of the relatedness of the company will be rated as unrelated. Acculturation theory would then propose that the acquiring company would prefer the mode of separation or deculturation.

The acquiring company is similarly involved in the pre-merger evaluation of its own culture in order to predict which acculturation process is most likely to be triggered. The elemental questions of the acquired party are how strong the members are tied to their current culture. Furthermore, how strongly would they preserve their culture, especially with an external force that the acquiring company's culture will be. The second dimension is the attractiveness of the acquiring company as perceived by the acquired party. This will help to measure how probable a shift towards the acquiring companies culture will be.

The two dimensions help the acquired company to evaluate which acculturation mode will most probably be triggered in the M&A process.

Given this pre-assessment of both parties regarding their triggered acculturation modes, the pre-merger phase can be used to determine the degree of collision.

In comparison, the Social Identity Theory is hypothesized to have less of an impact on the pre-M&A phase. This is due to the different angle that it takes. There is no one-on-one interaction between the employees. Nevertheless, the propositions made by the Social identity Theory are already affected. The individual is a puzzle of different identities, which are affected by the environment. When an M&A is announced, the individual has to test internally how this affects the identity portion that is defined by the membership with the organization. This may lead to shifts in the shares of identity away from the identity that the individual draws from its membership with the organization to other identities inherent in the individual. This may also affect the overall relation that the individual has towards the organization, eventually affecting work morale and commitment to work. In general, this phase is a phase of uncertainty. Until the announcement of the M&A, the individual will most likely be unaffected, as a merger will not be promoted before it is officially announced. Social Identity Theory allows for the pre-M&A phase to have a look inside the individual, however it does not have a direct impact on the interaction of the merger.

The official merger phase is, in this compatibility study, only considered the time between the announcement and the first action of change. This timeframe can be as short as some days, but as long as some months, depending on the announcement. For the purpose of this compatibility study of the two theories, the timeframe is considered to be short. From the viewpoint of the acculturation theory, the companies will have 'agreed' upon a mode of acculturation. A major criticism for the

Acculturation Theory is that companies have a reference frame in the pre-merger phase, which broadly determine their acculturation mode, but there is no integration framework for the knowledge acquired on both sides during the M&A process. While both companies may have an idea which acculturation mode will be triggered, the theory directly switches to the problems that occur if the two modes chosen do not match. The researchers of this field, such as Nahavandi et al, Larsson and Marks fail to propose a proper framework for the use of the information that was acquired in the pre-merger stage. As a result, their research is mainly focused on the consequences of acculturation modes, which do not match. The non-existence of this initial integration framework makes the theory in the pre-merger integration process an explanatory study for problems that occurred, because it helps preventing them.

The advantage of the combinatory reflection of this paper regarding the Acculturation and the Social Identity Theory can now be fully employed. The insides from the Social Identity Theory provide a shift in perspective, which can be exploited to understand the detailed frictions happening in the integration procedure. As described in the Social Identity Theory, individuals are inclined to an in-group/out-group mode of thinking. The process along with the different influential factors regarding the group membership, the different degrees of belonging, and the importance of each group membership for the construction of the own identity tend to be strongly interrelated, and therefore hardly distinguishable. Nevertheless, the construct of in- and out-groups, as well as the terminology of 'us' versus 'them' provides the human being with a simplistic and thereby manageable view of world.

At this point, another theory provides a deeper understanding of the circumstances that the individual is in in the integration process after an M&A. The **social constructivism** view interprets the M&A process as a congregation of individuals that by the distinction between 'us', 'them' and 'we', they try to make sense of their environment. This collective sensemaking process is what Vaara (Vaara, 2003) describes as "a conceptual framework through which one can understand 'decision-making' as contextual processes which are characterized by uncertainty and ambiguity as well as being charged with political tension". Furthermore, Kleppestø (Kleppestø, 1993 in Stahl & Javidan, 2009) describes this construction in similar terms as the Social Identity Theory: "'We' cannot establish an identity without stressing 'our' uniqueness and 'their' otherness". Social constructivism sees the individual's actions as a quest for identity. Especially in the time of an M&A, the individual tends to demand a more structured environment and an overly and exaggerated black-and-white perspective, thereby lacking attention for the similarities. This is triggered by the uncertainties and threats that come along with the merger.

Social constructivism is a theory closely related to the ideas of Social Identity Theory. It helps to understand the wider meaning of identity development in society and the forces of the collective society on the individual, while Social Identity Theory is here used to provide a closer look at the organizational level. Nevertheless, there is one major difference between the two concepts. Social Constructivism interprets culture as a system of shared meanings and thus as an overlap of very subjectively acquired and interpreted values. These (partially) shared meanings or patterns of interpretation are in constant change due to the people who are identifying with it and continually alter and reproduce their understanding of it. Although, most studies approach the concept of culture from a functionalist or objectivist standpoint and assume culture to be a stable system of practices, norms and values (Stahl & Javidan, 2009; Stahl & Voigt, 2005).

Returning to the framework of compatibility, the Social Identity Theory provides the organization in the early post-M&A phase with a tangible and manageable concept of group dynamics. This helps the integration manager to predict conflicts on the interaction level. In comparison to the Acculturation Theory, actionable plans can be developed to overcome group conflicts or to develop workshops and guidelines. The importance of the Social Identity Theory is hypothesized to be highest in the initial interaction stage of the post-merger integration. In these first weeks, the group structures are first strengthened, as the social constructivism view suggests, before a potential shift in or a new formation of groups can take place.

It is theorized that the two merged companies will over time experience the need to adjust major components of their business. An example is the recently strengthened cooperation and slow acquisition of Gildemeister AG by Mori Seiki Ltd. The German engineering company, which is one of the market leaders in the production of machine tools and milling machines, started the acquisition process by 2009. After the initial integration phase, the company started to realize that some products of the portfolio were cannibalizing others. This led to an adjustment of the product portfolio. Initially, sales engineers from both countries still preferred selling ‘their’ products, but with the adjustments of the portfolio, there was often only one choice left. Sales habits, marketing strategies and inherent product preferences had to change.
This case provides an example that shows how subsequent adjustments of the merging companies’ strategies can force a second cultural finding process upon the individuals of the company. In the process diagram, this is reflected in the second bold part for the Acculturation Theory. The acculturation will once more be triggered, as the different company groups need to adjust to the new conditions. This might mean that an initial acculturation mode might have included separation, as the companies worked almost autonomously, but with the merge of the product portfolio, they will once more be forced into an integration or assimilation mode. This is again determined by the diversification strategy of the acquiring party and has to match the perceptions of culture of the acquired company.
With this broad acculturation process being triggered a second time, the organizational structures are likely to be changing, forcing new individuals to work together. In consequence, the Social Identity Theory is triggered. In-group and out-group adjustments are made once more.
In this framework, this process between the two theoretical approaches is ongoing over time. The perspectives between the theories are shifting, with one continuously predominating for a certain time along the timeline of the M&A. Given their opposing

perspective as well as their complimentary ability to interpret the M&A process, they take effect at all times during a company's existence. Nevertheless, their overall importance for the business operations is decreasing over time, as the conflicting cultural problems are solved or have reached a state that is agreeable to both parties. The grey lines in the framework indicate this cyclical move of relevance along the timeline of the organization, peaking in the post-merger integration process. This movement towards the recognition of the post-merger integration process as a key chapter of the M&A process is increasingly gaining recognition in research. Many of the cultural concepts provided in the previous chapter are concluding that differences in culture influence the PMI outcome and that they emphasize the importance of a holistic approach to culture in M&A to understand what stimulates success and failure (Stahl & Javidan, 2009).

4.4.4 Additional Influencing Factors and Concepts

The framework, as proposed in this thesis, cannot be interpreted as a stand-alone approach. Following, different theories and concepts will be considered and connected to the base framework. The examined concepts are the Cultural Fit Theory, the concept of Trust and Organizational Learning. Many minor side factors will be examined within the research.

The first concept that should be highlighted is the **Cultural Fit Theory**. The Cultural Fit or Compatibility Theory emphasizes that the compatibility of the culture between two companies in an M&A process is the critical element for the PMI. The cultural fit model provides a cause-effect relationship that spans from the pre-merger cultural differences to the PMI outcomes. Olie (Olie, 1994) provides a series of examples, which are culturally sensitive, though practical decisions may influence the PMI. This spans from the choice of headquarters to the cultural background of the newly appointed CEO.

Cartwright and Cooper (Cartwright & Cooper, 1993, 1995) present a model for the measurement of cultural compatibility which is focused on M&As. They criticize: "culture fit and culture compatibility are well used, but ill-defined expressions". Their critique is that though there is a large body of literature, there is rarely a systematic approach to it, nor is there empirical evidence that draws upon a larger-scale sample of M&As to explain the effects of cultural differences on the PMI process (Weber, 1996). In their model they propose a cascade of organizational cultures, which have differing impacts on the individual. Some companies have developed a power culture, others a role culture, a tasks culture or a personal culture. The first one puts the most constrains on the individual, while the constraining effect on the individual lessens with every following culture. In mergers of equals, (Cartwright & Cooper: "collaborative marriages") a successful integration of the cultures is only possible if the kind of cultivated culture is matching in both companies, or are close to each other (e.g. power culture and role culture). Cartwright and Cooper argue that the closer they are, the more likely a balance of power will be present, and that the organizations can

adapt to each other to form a new, third culture. If there is no effort to integrate the cultures, this still causes major integration problems.
If the acquiring company and the acquired company have different power levels (Cartwright & Cooper: “traditional marriage”) with one company being the obvious successor, it does not inevitably lead to a smaller integration success. This relation is called an asymmetrical relationship (Stahl & Voigt, 2005). However, the direction of cultural change is crucial. If the new culture shifts to a lower degree of constraint on the individual (e.g. a shift from role to task culture), the integration is more likely to happen than the reversed way. This underlines that in these cases, it is rather the direction of the cultural change as it is the cultural distance.
Cultural fit models offer an explanation as to why cultural differences (at a very broad level) can have a significant negative impact on achieving integration success. This emphasizes how important an ex-ante assessment of the to be acquired firm is (Stahl & Voigt, 2005).

The Cultural Fit Theory is interesting in respect to the description of culture that it provides. While the Acculturation Theory explains how the mode it chosen for the integration of two cultures, the Cultural Fit Theory offers an overview of the general kinds of culture that exist. The personal, the task, the role and the power culture are the underlying and subconscious cultures on which basis the acquiring and the acquired company will base their responds to the initial queries about the relatedness of the firms and the multiculturalism, as well as the attractiveness of the own and the new culture, on.
In the light of the greater framework that the Cultural Fit Theory is put into relation here, its approach seems very narrow and static. It proposes only four different cultural specifications, and there is no approach for the determination of which culture a firm belongs to. Therefore the theory can be criticized to be too susceptible to bias caused by internal misjudgements and in-group thinking. Nevertheless, the theory highlights an enormously important aspect that the initial two theories do not cover. Based on what cultural background is the acculturation mode chosen? Is the conclusion that a company might come to regarding their acculturation mode also the mode that is eventually implemented? On the acquired firm’s side, questions evolve around how neutral a judgement can be that a company can make about its own culture, and the attractiveness of another culture? May there be tendencies to more judgmental biases when coming from a Power Culture as opposed to a Personal Culture background. These are only some of the questions that are raised from the introduction of the Cultural Fit Theory to the comparative study at hand.

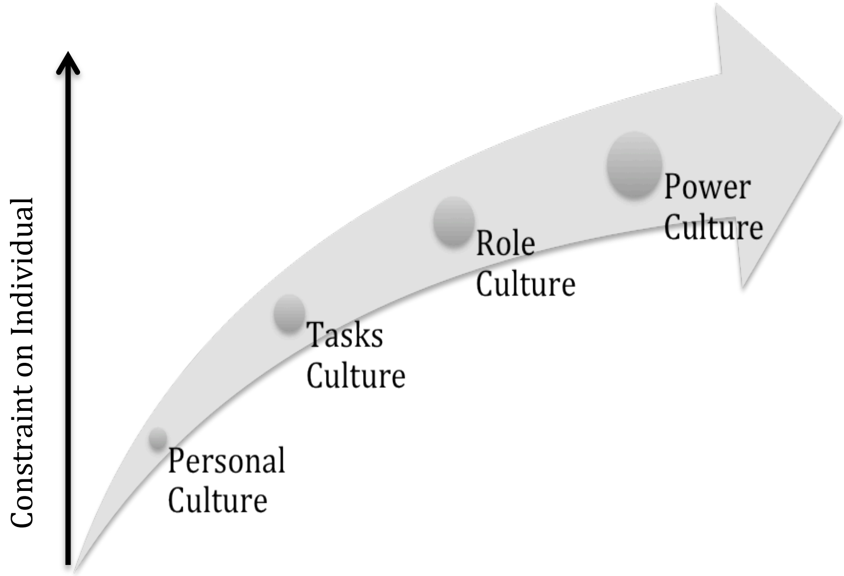

Figure 15: Cultural Fit Theory
Source: own illustration

The second concept that should be introduced to the compatibility study is the concepts of **trust**. In this field of research, trust is a continually recurring concept, which is sometimes explained as segment of one of the major theories, and sometimes as a theory on its own.
Research suggests that the concept is largely interrelated with the Social Identity Theory. However, in this short excursus on trust, the influence of trust on both concepts is going to be evaluated. Comparing the influence that trust can have on the two selected theories, trust applied on the organizational level will tend to remain on a broad level. On the interpersonal level that the Social Identity Theory is based upon, the concept of trust is anticipated to have a more direct influence.
The most general definition of trust is: one party (truster) is willing to rely on the actions of another party (trustee) over the course of time. Trust always involves two parties and creates -based on information exchange- a bond between those parties. The concept of trust is borrowed from the research of social groups and can easily be transferred to the cross-border context of the M&A. Trust is critical to the formation of cooperative alliances. Especially in cases of high uncertainty of the partner's or the acquiring/acquired company's behaviour, trust allows for the benefit of doubt in interpreting the action of the other party. As a result, the potential for conflict is reduced (Stahl & Javidan, 2009). Furthermore, trust creates an environment in which knowledge exchanges can take place. This is of major importance if the initial motivation for the merger was the acquisition of as well as the access to know-how (Stahl et al., 2012). Trust reduces the fear of opportunistic behaviour. This is especially important in the context of in-group and out-group thinking. Trust is increased by sharing the same set of values, or by showing a similar pattern of behaviour.
The value of trust has long ago reached the attention of CEO's and managers in M&A's. Daniel Vasella, the -after the merger- appointed CEO of Novartis,,

acknowledges the importance, but also the fragility of trust in M&A as follows: "Only in a climate of trust are people willing to strive for the slightly impossible, to make decisions on their own, to take initiative, to feel accountable. Trust is a prerequisite for working together effectively. […] Among all the corporate values, trust was the one that suffered most from the merger (Stahl & Mendenhall, 2005, pp. 391–392).
Several qualitative studies and interview-based research was conducted on trust, however the research still needs to become more systematic. A new nuance regarding national culture and the attempt to create a broader look at trust from an organizational perspective was introduced by Stahl et al (Stahl et al., 2012). In a recent study from 2012, they investigated, whether members from the acquired company react differently to a takeover depending on their national context. The study was conducted with a cross-national sample from Singaporean and German employees. The results show that the attractiveness of the acquirer's HR policies and reward systems were the most powerful predictors for trust on both sides: the German and the Singaporean employees. This finding is found to be consistent with many studies that show that employees' reactions are highly based on the personal benefits and losses that are attributed with M&A.
This finding can be referred back to the Acculturation Theory, which states that the attractiveness of the acquiring organization is -amongst others- assessed by the acquired company's employees. A favourable assessment by the employees gains importance with the research on trust. It does not only smoothen the process of integration, but the favourable evaluation also furthers the building of trust. This consequence can be used in one-on-one interactions, the group-building processes, and the limitation of 'us'-versus-'them'-thinking in the Social Identity Theory, highlighting the influence of trust on the comparative study of both concepts.

The third concept that interacts with the two theories is **organizational learning**. Organizational learning centers around two major topics, the capability transfer and learning through experience.
The capability transfer hints on the firm's advantages that it may have in acquiring a foreign company. The differences in cultures and systems can point out weaknesses of the own company's culture, and in consequence, lead to a learning effect triggered by the example of the new culture. Old rigidities can be broken up and richer knowledge structure can be developed. The argument of capability transfer is that the M&A process fosters innovation and learning. Some researchers see a learning effect routed in the 'capability transfer' that resides in the merging organization. Assuming that an organization would only choose a target that gives the acquiring company a certain advantage, the combination must trigger a certain capability transfer. Where these advantages or complimentary knowledge lie refers back to the initial motivation for the merger (Björkman et al., 2007). Barkema et al. (Barkema et al., 1996) argue similarly in their research. They even suggest that learning is the driving force behind the internationalization intentions of a firm. They make use of the Uppsala stage model, which recommends small steps of international involvement to adjust to the uncertainty that is caused by local habits, preferences, market structures and the

interaction with customers. Much research is centered on the topic of capability transfer, especially in relation to M&A performance and success factors. Another field of research that relates to capability transfer is the **synergy creation**. While this is an important and widely researched field in the research on M&A performance, this thesis will not enlarge upon this topic, which could be a stand-alone thesis on its own.
In fact, the second component of organizational learning is much more interesting in connection with the study of the two selected main theories. Learning through experience focuses on how organizations learn from past M&A activities and how this tacitly forms and redefines their organizational routines (Zollo & Singh, 2004). This 'learning-by-doing' approach is used to improve their approach to and the management of their next M&A activity (Stahl & Javidan, 2009). Some research that was undertaken covers tests on learning processes along learning curve models. Others predict variables to verify an accumulation of experience from prior acquisitions in relations to financial outcomes.
King et al. (King et al., 2004) view the assumption that more M&A-experienced companies have a higher probability for success when acquiring other companies critically. They interpose that the experiences made from former acquisitions can only be transferred to a similar acquisition, though not entirely to a dissimilar acquisition. In this case, the experience gained might even have a negative or hindering influence. They suggest that the unbiased (with or without experience) acquirer can be expected to perform the best, as he will not make generalizations. Nevertheless, they accept that diversely experienced acquirers will be deliberate enough to apply their experience in a knowledgeable way (Haleblian & Finkelstein, 1999 in Stahl & Javidan, 2009).
For the two main theories discussed, the learning theory has a significant impact over time. The process diagram that we are following throughout the examination shows exactly one M&A cycle. The grey lines suggest that the importance of cultural implications follows a cyclical structure over the course of the M&A transaction and the subsequent process. With the findings of the learning theory and the effects of experience, it can be hypothesized that the cycle skips will attenuate and soften along additional M&A activity of the firm. On the level of the Social Identity Theory, this has an impact on the interaction between the individuals. Firstly, with a new acquisition posing a new threat, the formerly merged companies' individuals will close ranks and will more likely form a new 'us' versus the new 'them'. Additionally, experience is also gained on the individual level. On the individual level, this experience helps to make predictions about the future of the company, which in consequence reduces uncertainty, and therefore also decreases acculturative stress.

There are many more concepts and influencing factors, which could be discussed as shaping the environment in which the two major theories are embedded. Influences from the capital markets and macroeconomic conditions have to be mentioned. As hinted on at several points, the kind of M&A and the motive for this M&A set the underlying assumption and the tone for the whole transaction. This is why it is of critical importance having laid out the fundament for a better understanding of the mind-set of the acquiring organization.

4.4.5 Reference to National Culture

To summarize, the proposed comparative study of the Acculturation Theory and the Social Identity Theory highlighted how these two theories can be used to understand the influences of culture on the PMI. The theories were chosen for their presumed compatibility, which was shown and explained over the course of the examination. Furthermore, the perspective was extended to the whole M&A process, not only considering the PMI. This is important to mention, given the research questions, which narrowed the study down to the PMI process only. However, the two theories had to be researched over the entire M&A process to better understand the impacts that culture has in the pre-merger or merger phase which influences the PMI. Finally, the research can be questioned regarding its relation to 'national culture' as opposed to 'organizational' or 'corporate culture' as stated in the research question. As described in chapter 3, the concepts of national and corporate culture differ in their interpretation. However, most researchers who study the influence of culture in the PMI use the term culture as a synonym for 'corporate' culture. The research of 'national' culture differences on the PMI are thereby majorly neglected, at least in the creation of systematic structures and the proposal of frameworks.

For the Acculturation Theory, the integration of national culture was proposed through the introduction of 'double-layered acculturation', hinting on differing facets that the acculturation has. This thesis therefore proposes that the theories can be easily transferred to 'national' culture, offering hereby a more sophisticated view as purely on national culture-focused concepts. In regards to the Social Identity Theory, the concept of 'national culture' is integrated in the human being as one of its many identities. As described, these inherent identities are shifting and influencing each other within the individual. In consequence, an employee at work does not only make use of his or her organizational identity, but also of the national identity, which again shapes the national identity. This means that national identity overlaps with the organizational identity. Depending on the degree of detail, there are many more identity structures, which overlap and shape the organizational identity that an employee has. This can range from the position within the family to the job position. This may also cover the membership in clubs or any societal engagement that the individual draws identity-shaping meaning from.

Also, the additionally presented influencing forces, such as cultural fit, trust, and organizational learning demonstrate a close interconnectedness to national culture. The cultural fit is easily related to culture concepts such as Hofstede's Cultural Dimensions or the GLOBE Project's dimension, as it assesses the compatibility of two cultures. One part of the assessment of the kind of culture that is underlying in a company is influenced by the national culture. Here one could propose that, following Hofstede's assessment of national culture contexts, a country that is high on power

distance, such as Japan, might tend to a power culture, while Scandinavian countries might rather tend to a personal culture.
In interesting counter argument is raised by Vermeulen and Barkema (in Marks & Mirvis, 2011). The researchers argue that diversity and differences create 'frictions', which are needed for synergies and learning. In consequence, more differences in culture are seen as advantage to create higher return for the acquiring company or the success of the merger respectively.
The relation to national culture is more obvious for the concept of trust. Trust is based on symbols and artefacts, on language and understanding, on behaviour that can be interpreted and value propositions that can be shared. Trust always starts on a personal level and is therefore closely knitted into national societies' contexts. Lastly, organizational learning is a variable that again refers to an organizational context, however, it can only be achieved on an individual level. Learning takes place at every level of the firm, from blue-collar workers to the CEO, onto the integration manager. Their experiences are shaped by the way that they interpret and process the situation, based on their cultural and personal background.

4.4.6 Limitations and Future Recommendation

To conclude, the limitations of the theories and the framework have to be pointed out and set in relation.
In regards to Acculturation Theory, Schweiger and Goulet (Schweiger & Goulet, 2005) found that the speed of acculturation can not be compared to slow, undirected cultural evolution, but is rather a process of management intervention. While the comparative study suggests that the Acculturation Theory uses a 'top-down' approach, the influence of management was not put as drastically as Schweiger and Goulet put it. Nevertheless, this thought would need further investigation in the future.
Secondly, Stahl and Voigt (Stahl & Voigt, 2005) indicate that not cultural differences per se create problems in the M&A process, but it is the way that cultural boundaries are drawn and managed. This leads them to the conclusion that cultural issues cannot be studied in isolation of other aspects of the M&A integration process. This suggests that in the future, more holistic approaches have to be taken to draw a comprehensive picture of the influencing factors and stressors of the cultural integration in a M&A.

Turning to the critique of the suggested framework: The framework for the examination of the two theories, as well as their interplay, is a proposal for the sole illustration of the current research done on cultural integration in PMI of M&A. It does not claim to be complete, nor does it claim to be fully examining the influences and dependencies. However, it should give the reader a new perspective on this broad, sometimes confusing and often overlapping topic of cultural integration in the PMI of M&A, by centering all theoretical concepts on two major streams of research and putting it along the timeline of a M&A. Furthermore, it should help to structure the research and the influencing forces for an overview of theoretical concepts that are

out in the researchers' sphere, but are most often neither relating nor holistically referring to each other.
Referring back to the temporary alteration of the research questions, this integrative analysis of the two studies and their influencing factors, offers insights into the influence of national culture.
What alternative organizational culture models can be taken into consideration to explain the influence of national culture on the post-merger integration process after cross-border M&A?
The presented study integrates the theories from M&A research combined with the practical implications of the M&A process. Thereby, it covers the scientific side and relates it to the operational side of the business. Due to the lack of frameworks on national culture in relation to the organization, the additional research question can be answered with the proposed framework. The study can be taken as base point and be transferred to the concept of national culture, as discussed in the analysis. By doing so, a major critique factor, namely the lack of relation of the theories to the operational business of an organization can be overcome. Finally, this framework is one possible answer to the initial research question.

The recommendations for future research are twofold: the recommendations for organizations and the recommendations towards science.
The suggested framework should be further developed and tested towards it applicability to the organization's integration process. The introduced variables have to be tested regarding their suggested influence on the organization, the individual in the organization and the interrelation of the variables itself. Nevertheless, this framework offers a first guidance for the effective integration of cultural aspects – national and corporate- during M&A. Then, this framework cannot only be used as guide to predict integration problems, but also forecast when they are likely to appear. With these predictions, the integration managers and the integration team will be able to develop better interventions to overcome the cultural integration problems. This can be seen in the following table and in the presentation of the theoretical concepts, most are still lacking good interventions, and mostly they do not have a concept in place at all.

Underlying Theory	Acculturation Theory	Social Identity Theory
Sources of Problems	Contact with or adjustment to different organizational culture	Loss of old identities (organizational, professional, work group) Interacting with other organization's members
Predicted Outcome	• Acculturative stress and resistance • Interorganizational tension and conflict • Culture Clash	• Sense of loss, anger, and grief, denial and refusal of change • Intergroup bias and conflict • Acts of noncompliance
Related Prescriptions	• Cultural Due Diligence • Fostering multiculturalism • Facilitating intercultural learning • Heightening awareness of thinking and behaviours that cause culture clash to develop	• Disengagement efforts (grieving meetings) • Proactively assessing strength of existing identities and framing new identities to be more appealing • Creating a new identity, fostering cross-organizational arrangements and activities

Figure 16: Summary of Theories
Source: (Seo & Hill, 2005)

The following best practice example of GE Capital Services shows one example of how to approach the cultural integration in a more systematic way.
This model divides the M&A process in four 'action stages', from pre-acquisition to assimilation. Each stage is subdivided into sub-processes that related to the formal M&A process. Finally, in the core of the wheel, recommendations for the manager are summarized. Those related to the tasks that have to be started in the particular action stage. The systematic approach to the integration process is exemplifying how improvisations in the cultural integration process can be counteracted efficiently. Nevertheless, this model is always only a reference point for the organization, not a fixed directive, as every merger has its own characteristics and problems that must be reacted to.

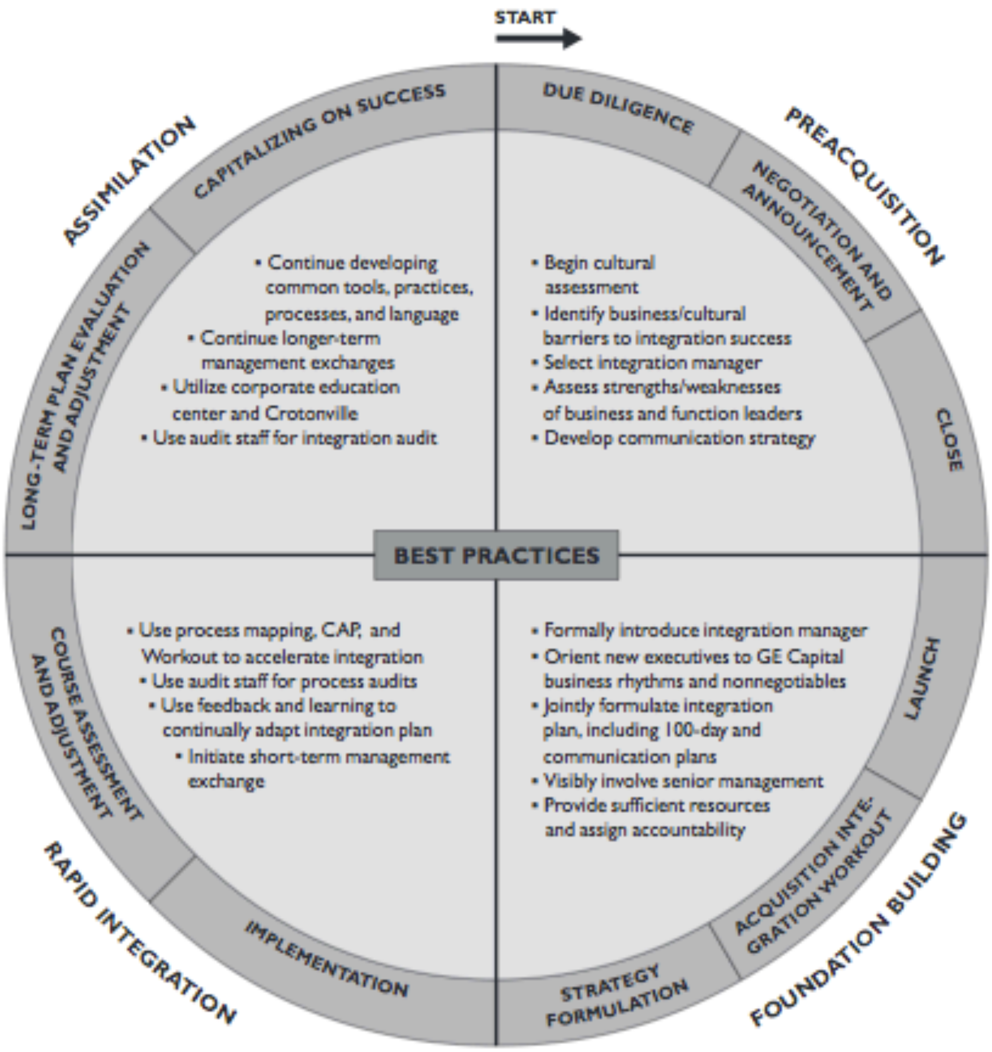

Figure 17: Best Practice Example - GE
Source: (Ashkenas, DeMonaco, & Francis, 1998, p. 7)

Recommendations for the scientific sphere focus on the applicability of the framework. Further studies have to done to test the validity of the raised issues and the overall fit of the framework. Additionally, the focus on the two major theories, the Acculturation Theory and the Social Identity Theory, has to be further justified. The influencing concepts, such as Cultural Fit and Trust, have to be more thoroughly discussed and interrelated with the main theories. Additionally, other concepts have to be taken into consideration. Possibly, it could be argued that a third main theory has to be added to the current ones to add a new, until now underrepresented perspective to the discussion. Finally, the framework has to be tested in an organizational setting. A long-term case-study may be advisable to explore the validity and applicability of the framework.

Chapter 5 – Conclusion

Concluding the research of this thesis, there are several points of critique. When initially choosing the topic of cultural influences in mergers and acquisitions, I did not expect to uncover the overwhelming amount of research done.
Much more I expected to be confronted with best practice examples and good advice on how to integrate cultures and in particular national cultures in the cross-border context. Just recently, German Trade and Invest (GTAI), the official German office for the promotion of investments in Germany, released a paper on negotiation styles between Germans and Americans. This paper contained much good advice regarding the behaviour Germans should show in interactions with Americans and what they can expect from their counterparts. The suggestions ranged from the first contact, business meetings and dinners, to suggestions for private interaction. *Do's* and *Don'ts* were highlighted along the lines of: small talk is desired by Americans, 'time is money' therefore punctuality is a must, and prices and conditions are always stated upfront.[3]

With this striking opinion on cultural research in mind, I started the research for my thesis. And the research opened up a whole different world of concepts and statements of national cultures in organizations.

I had the opportunity to investigate in three different, but highly connected research areas: culture, mergers and acquisitions, and cross-border business. Over the course of the thesis, I had to realize that these fields of research are interesting to many different scientists with different backgrounds. This accounts for the importance of the topic, as well as it also suggests that there is no commonly agreed procedure in the approach to research on those topics. For the thesis, this was the biggest obstacle, as the interpretation of different sources was not only time consuming, but also very often misleading, too specific or not related to either one of the three research areas.

Most research on cultural differences in M&A is based on anecdotes, case studies and surveys, all of them only touching upon one historical M&A, one organization or one variable. While this case study approach should imply a strong organizational focus, most studies are not able to transfer the knowledge gained or the observations made into practicable interventions.
Furthermore, most research does not provide a longitudinal study or an experimental approach to verify the propositions and assumptions they made about culture. How can cultural differences be bridged and how can cultural acceptance be promoted between merging companies. Research is very selectively done and especially in the transferability of the research outcomes, there are significant gaps in the literature (Schweiger & Goulet, 2005).

[3] "Verhandlungspraxis Kompakt – USA", German Trade and Invest, August 2013, Website: www.gtai.de

There are various quantitative approaches to culture in the context of M&A, but most of the variables are based on the cultural definitions proposed by Hofstede or later, the GLOBE project. While these researchers receive major critique for their work, their concepts are still basis for future research undertaken. This mismatch indicates the need for more comprehensive concepts to base the discussion on. Additionally, quantitative research is criticized immensely due to the incongruity of culture as an intangible variable and the statistical analysis approach usually chosen in research.

Finally, not only the research methods and perspectives are deviating from each other, but also the outcomes. Some studies found national and organizational culture to be negatively impacting the M&A process, others found cultural influence positively relating to the M&A success. Fortunately, most findings agree that there is some kind of effect triggered by culture, albeit the relationships are more complex than the current M&A research can portray (Stahl & Voigt, 2005).

Connecting the research on culture with the post-merger integration, it adds another layer of complexity. Schweiger and Goulet (Goulet & Schweiger, 2006, p. 410) describe this as: "acquirers may be culturally predisposed in the way they approach integration, and […] targets may be culturally predisposed in the way they respond to integration".

A double-sided, multi-layered, longitudinal, interrelated study across different scientific fields is consequently what scientific research has to desire to conduct.

For the research for this thesis, I borrowed 'sensemaking' as a concept from organizational theory. The amount of existing research is overwhelming and a categorization without profound knowledge in the adjacent sciences and research fields, such as finance or psychology, presented one of the initial obstacles. With my personal sensemaking-strategy, I hope to have shed light into the 'black-box' of cultural post-merger integration and to have provided a framework, which can be build on in further research.

Along the preparation of this thesis, I had the opportunity to talk to and learn from many experts and employees in different industries. Most of them were along their professional career in one way or the other affected by cultural differences or post-merger integration issue. All of them agreed that the topic of this thesis is of major importance to their daily business life, although they also admitted that organization barely recognize this.

I would like to close this thesis with the initial quote of the thesis:

"The globalization of industries and the internationalization of companies leaves us with a paradox. It is tempting to conclude that the nation has lost its role in the

international success of its firm. Companies, at first glance, seem to have transcended countries." Michael E. Porter, (Porter, 2011)

With the findings of the thesis and my personal experience along the research process, I can ease this fear of irrelevance of national cultures and the individual. It is still a long way to go for organizations and scientists to holistically cover this topic, but as the Americans say: "*A fault confessed is half redressed*"

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