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A Model of the Influence of Culture on Integration Approaches and International Mergers and Acquisitions Performance

Abstract: *An extensive body of literature has suggested that the influence of culture on the postmerger integration process and mergers and acquisitions (M&A) performance is critical. However, the results of empirical studies are contradictory and confusing. In fact, the combined effects of corporate culture, national culture, and synergy potential on various integration approaches, as well as their influence on M&A performance, have never been simultaneously investigated. This study aims to fill this gap and to develop a theoretical model using a multidisciplinary approach that draws upon the literature from strategic management, international management, and anthropology. Furthermore, unlike most studies that focus on a single stage of M&A, this study combines variables of pre- and postmerger stages.*

Mergers and acquisitions (M&A) have been going on for the past century. However, there is a large gap between the dominance and number of M&As in the world and the outcomes of academic research in this field (Shimizu et al. 2004). While an

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extensive body of literature has suggested that cultural differences and integration efforts during postmerger integration process are critical to M&A performance, the relationships among corporate culture, national culture, and postmerger integration levels, as well as their influence on international merger performance, are not clear and the results of empirical studies are contradictory (e.g., Schweiger and Goulet 2000; Stahl and Voight 2008).

Over the past 40 years, a growing body of research has investigated the antecedents that predict M&A performance without finding clear relationships (e.g., Stahl et al. 2005; Stahl and Voight, 2008). The key factors for M&A success and the reasons for the M&A high failure rate remain poorly understood. Recent reviews (e.g., Stahl and Voight 2008; Weber and Drori 2008) point out that most of the existing research on M&A has been atheoretical and fragmented across various disciplines; the research has not been systematic and linked to any comprehensive theory; and rarely have models been proposed that were applicable across different organizations.

This study aims to develop a conceptual framework that better explains international M&A performance. To this aim, the study uses a multidisciplinary approach that draws upon literature from strategic management, international management, and anthropology.

M&A performance and integration approaches

Despite the popularity of M&A as a growth strategy, the conditions under which M&As enhance or destroy a firm's value remain unclear. Recent studies (e.g., Hitt et al. 2001; Larsson and Finkelstein 1999; Schweiger 2002) present evidence that postdeal value creation hinges on the firm's ability to effectively combine operations of the two previously separate firms. Yet firms choose different levels of integration (e.g., Pablo 1994; Weber et al. 1996), but the findings presented in Table 1 about the relationships between integration and M&A performance are contradictory (Schweiger and Goulet 2000).

Some studies found that integration is positively associated with performance (Larsson and Finkelstein 1999; Weber 1996) while others found integration to be nonsignificant in domestic (Datta 1991) and international M&As (Morosini et al. 1998). Other studies (e.g., Calori et al. 1994; Chatterjee et al. 1992; Ranft and Lord 2002) found that performance was negatively related to integration in M&A.

M&A performance and cultural differences

While corporate and national cultures have frequently been used to explain the poor performance of domestic and international M&As, there are contradictory findings about the role of cultural difference in the success of international and domestic M&As. Several studies have provided support for the idea that corporate (Chatterjee et al. 1992; Datta 1991; Weber 1996) or national (Datta and Puia 1995; Weber et al. 1996) cultural differences are detrimental to M&A performance. However, it has

also been argued that cultural differences may serve as sources of value creation, and there is empirical evidence that they may in fact improve M&A performance (Larsson and Risberg 1998; Morosini et al. 1998). Yet rather surprisingly, studies of cross-border M&As have rarely included both national and organizational culture dimensions in the same analyses (for an exception, see Weber et al. 1996).

There is no reason to believe that the impact of a clash of national cultures will not be equal, if not greater, than the one produced by a clash of corporate cultures. The problem of integrating cultures at a double level is referred to by Barkema et al. (1996) as “double-layered acculturation.” If we accept the premise that national culture represents a deeper layer of consciousness, it should be even more resistant to change than corporate culture. Hence, one should expect national culture to be a crucial factor in M&A conflict as well as in the quest for successful integration. Nevertheless, the empirical finding on the effect of national culture on M&A performance is mixed (Stahl and Voight 2008), leading to the conclusion that the extent of both national and corporate culture differences and levels of integration are not sufficient to explain M&A performance. The postmerger integration process is a complex phenomenon that probably needs a better conceptualization than the simple linear relationship suggested by the studies reviewed earlier. Additional factors and configurations that are part of the postmerger integration process will be presented in this study.

Corporate culture, national culture, and level of integration

Relatively few studies were directed at determining the relationships between national or corporate cultures and levels of integration. Table 2 presents summaries of the empirical findings about the relationship between cultural differences and levels of integration.

These studies used a variety of samples, different definitions for culture, cultural differences, and integration, and consequently the studies yielded all possible relationships between cultural differences and integration, as depicted in Table 2. For example, with respect to the effect of organizational cultures, Lubatkin et al. (1999) and Weber (1996) report that organizational cultural differences were positively related to autonomy removal (as a measure of degree of integration), while Datta (1991) and Larsson and Finkelstein (1999) found no relationships. Others studies, such as Van Oudenhoven and de Boer (1995), in a laboratory experiment, found that cultural similarity is positively related to the degree of integration, and Morosini and Singh (1994) found that uncertainty avoidance and individualism are positively related to the level of integration.

The review of these studies indicates that cultural differences, whether organizational or national, show different relationships with level of integration. The direction of these relationships is not clear, and the influence on performance is vague. Furthermore, national cultural distance adds to the complexity of these findings. It is unclear how national culture interacts with organizational culture and what may

Table 1
Summary of empirical research examining the impact of postacquisition integration on performance

Reference	Sample (no.)	Integration definition	Performance measure(s)	Impact of integration
Calori et al. (1994)	Cross-border; questionnaire (25)	Formal control	Earnings, sales, and market share of the acquired firm	Negative
Calori et al. (1994)	Cross-border; questionnaire (25)	Informal control	Attitudes toward job, enthusiasm, and willingness to help others in the acquired firm	Positive
Cannella and Hambrick (1993)	Domestic (97)	Degree of autonomy removal	Turnover of managers of the acquired firm	Positive
Chatterjee et al. (1992)	Domestic; questionnaire	Tolerance for multiculturalism (autonomy removal)	Stock market value	Negative
Datta (1991)	Domestic	Level of integration	Rate of return, earnings per share, stock price, cash flow, and sales growth	No relationship
Hambrick and Cannella (1993)	Domestic (97)	Degree of autonomy removal	Turnover of managers of the acquired firm	Positive
Lubatkin et al. (1999)	Domestic; questionnaire (69)	Degree of autonomy removal	Turnover of managers of the acquired firm	Positive

	Cross-border (52)	Implemented postacquisition strategy	Growth in sales	No relationship
Morosini et al. (1998)				
Ranft and Lord (2002)	Domestic; case studies (7)	Degree of autonomy removal	Preservation of acquired firm's tacit and/or socially complex knowledge	Negative
Saxton and Dollinger (2004)	Mixed; survey by fax (212)	Degree of integration	Perceived acquisition outcomes for the acquiring firm	Positive
Singh and Zollo (1998)	Domestic; questionnaire (250)	Degree of integration (autonomy removal)	Performance of the acquiring firm: return on assets	Positive
Singh and Zollo (1999)	Domestic; questionnaire (250)	Degree of integration (autonomy removal)	Performance of the acquiring firm: return on assets	Positive
Very et al. (1997)	Mixed; questionnaire (159)	Degree of autonomy removal	Earnings, sales, market share of the acquired firm	Negative
Weber (1996)	Domestic; questionnaire (52)	Degree of autonomy removal	Return on assets of the acquiring firm	Positive
Weber and Pliskin (1996)	Domestic; questionnaire (69)	Degree of information systems integration	Marketing, R&D, operations, production, and personnel management	Positive
Weber et al. (1996)	Mixed; questionnaire (52)	Degree of autonomy removal	Degree of cooperation and commitment	Negative
Zollo and Singh (2004)	Domestic; questionnaire (228)	Degree of integration (autonomy removal)	Performance of the acquiring firm: return on assets	Positive

Table 2
Key findings of studies examining the impact of corporate and national cultural differences on postacquisition integration

Reference	Sample (no.)	Cultural dimension	Integration definition	Impact of cultural differences
Chatterjee et al. (1992)	Domestic; questionnaire	Corporate culture differences	Tolerance for multiculturalism (autonomy removal)	Positive
Child et al. (2000)	Cross-border	Different countries	Integration and control (strategic and operational)	Positive
Child et al. (2001)	Cross-border	Different countries	Integration and control (strategic and operational)	Positive
Datta (1991)	Domestic	Differences in management styles	Level of integration	No relationship
Larsson and Finkelstein (1999)	Mixed; case studies (61)	Management style similarity	Level of organizational integration	No relationship
Lubatkin et al. (1998)	Mixed	Uncertainty avoidance and power distance	Level of centralized control	Positive for both
Morosini and Singh (1994)	Cross-border	Uncertainty avoidance and individualism of the acquired company	Level of Integration	Positive for both
Pablo (1994)		High multiculturalism	Low level of integration	Negative
Pitkethly et al. (2003)	Cross-border	Different countries	Integration and control (strategic and operational)	Positive
Van Oudenhoven and de Boer (1995)	Domestic	Culture similarity	Level of integration	Positive
Weber (1996)	Domestic; questionnaire (52)	Corporate culture differences	Degree of autonomy removal	Positive
Weber et al. (1996)	Mixed; questionnaire (16)	Corporate culture differentials	Degree of autonomy removal	Negative

be the effect of this interaction on M&A performance. For example, Lubatkin et al. (1998) compared French and British acquirers and found that a greater need for uncertainty avoidance and greater acceptance of power distance were associated with higher level of integration (more centralized control). Similarly, Morosini et al. (1998) report that national cultural distance is positively related to the degree of integration (postacquisition strategy), but while cultural distance was positively related to performance, integration did not show any significant relationship with performance. However, the relationship between the degree of integration and the cooperation between the acquiring and the acquired top management teams was negative in international mergers (Weber et al. 1996).

Different approach to postmerger integration

Postmerger integration efforts are of utmost importance for extracting potential synergies between the acquired and acquiring firms (Capron and Mitchell 1998; Ellis et al. 2009; Larsson and Finkelstein 1999). However, the loss of autonomy that usually results from the integration process can be detrimental to the performance of the specific M&A deal (Chatterjee et al. 1992; Very et al. 1997). While the integration process aims at improving performance based on synergy potential, it may also lead to human resource problems such as stress, negative attitudes, low cooperation with and commitment to the success of the merger, and high turnover among top executives. Furthermore, transferring and integrating resources during the postmerger integration is also difficult because of cultural differences that create conflicts, communication problems, and employee resistance.

Moreover, the contact between the two top management teams not only reduces the autonomy of the acquired top executives but also exposes the diverse national and corporate cultures of the teams to each other and makes the differences salient. To the extent that cultural distance produces a “culture clash,” such a clash may be strongest where the contact between the adherents of the opposing culture is the greatest (in high levels of integration). Thus, there is an explicit trade-off between high and low levels of integration. High levels of integration may be needed to exploit high levels of synergy, but a high level of integration may also cause human resource problems that have the potential to destroy the value of the acquired firm and increase costs to an extent that offsets the benefits expected from the merger.

Some integration approaches were suggested to deal with this trade-off (Haspelslagh and Jemison 1991; Nahavandi and Malekzadeh 1988). For example, Haspelslagh and Jemison’s (1991) typology of integration approaches are based on different levels of integration and yield four integration approaches: absorption, symbiotic, preservation, and holding. Current studies consistently support the existence of three of them: preservation, symbiotic, and absorption (Haspelslagh and Jemison 1991; Marks and Mirvis 1998; Tarba 2009). However, these approaches do not consider national and corporate culture, assuming that they have at best a minor effect. Yet

the earlier review of research in the past two decades points to the importance of both national and corporate culture to the success of M&A, and thus they need to be taken into account while choosing the postacquisition integration approaches.

Furthermore, those matrices that proposed integration approaches (Haspeslagh and Jemison 1991) and modes of acculturation (Nahavandi and Malekzadeh 1988) were implicit about the relationship between each selected approach and M&A performance. By contrast, the framework presented here, based on different factors and considerations, treat integration choices as ideal types to be applied in specific situations. As such, a chosen integration approach, based on its specific configurational fit that is congruent with the three characteristics of each M&A (synergy potential, cultural differences, and cultural dimensions) can lead the acquiring company to a superior performance.

The contention here is that because cultural differences may be of critical importance to performance, unlike previous matrices, it should be considered when deciding on integration approach choice. Thus, the framework suggested here includes both synergy potential and cultural differences as major determinants of the integration approach. This point of view combines the pre- and postmerger stages. It suggests that cultural difference and synergy potential considerations should be part of the choice of integration approach. Such inclusion in the decision-making process has the potential to provide better M&A performance.

Propositions development

While this review recommends incorporating cultural differences into a framework that helps in choosing an integration approach, it is worthwhile to first explore one of the relevant assumptions used in M&A research as well as the international management literature. Shenkar (2001) and Shenkar et al. (2008) point out that the assumption of cultural distance symmetry has no empirical support. According to this assumption, a British firm acquiring a French firm is faced with the same cultural distance as a French firm acquiring a British one so that the effects of cultural distance on the level of integration and on performance will be the same. However, no studies have demonstrated such symmetry. On the contrary, Calori et al. (1994), consistent with Hofstede's (1980) national culture dimensions, found that French acquirers (high power distance and uncertainty avoidance) exerted greater centralized formal control, that is, higher levels of integration, over the strategy and operations of their acquired businesses than British acquirers (lower uncertainty avoidance), who leaned toward informal communication and cooperation that required lower levels of formal integration. The differential exercise of control mechanisms was found to correlate with acquisition performance. Similarly, Morosini and Singh (1994) found that in highly individualistic societies a lower level of postacquisition integration appeared to result in higher productivity growth one year after the completion of the deal.

Finally, recent evidence suggests that different national managerial groups have

dissimilar attitudinal preferences toward M&A with foreign partners (Cartwright and Price 2003). Thus, the different national culture dimensions may serve as important factors determining the managerial preferences for specific postacquisition integration approaches. These findings suggest that above and beyond cultural distance, the culture dimensions of the acquirer do have a bearing on the choice of the acquirer for the level of integration and eventually on merger success. We turn now specifically to these relationships.

The proposed framework suggest that each acquirer should consider not only the synergy potential and the implementation difficulties due to cultural differences, but also the acquirer's preferences for level of integration based on cultural dimensions and traits, within the integration approach that was chosen for the M&A. By doing so, the managers of the acquiring firm will have the highest chance to do best what they prefer to do and know how to do. Thus, each acquirer will chose the right level of integration within the integration approach. For example, while two acquirers, each from different country, will choose an absorption approach of integration, they may differ in their ideal type (e.g., full vs. partial absorption) and their level of integration, depending on their national cultural dimensions. Thus, while one acquirer will implement a high level of integration based on the absorption approach, hence full absorption, the other acquirer may apply a partial integration using the same absorption approach, in practice a partial absorption.

The choices to be made are both integration approach and level of integration to be adopted for the chosen integration approach, for a specific synergy potential and cultural difference, and dimension. This is because an inappropriate level of integration, over or under, for each preferred integration approach, may be detrimental to performance. An M&A that approximates its ideal types of integration approach and level of integration is hypothesized to be more effective than other M&As. Thus, our proposition is as follows.

Proposition 1: A correct level of integration for a chosen integration approach is positively correlated to the performance of the merger.

Postacquisition integration approaches and uncertainty avoidance

Lubatkin et al. (1998) found that U.S. managers tend to make a higher level of personal effort to ensure that the merger is successful; they are more involved with the target people than British managers. French acquirers tend to exercise higher formal control than U.S. and U.K. acquirers. France is known to score higher than both the United States and the United Kingdom on uncertainty avoidance. Other results indicate that U.S. acquiring firms rely more on informal communication and cooperation than French firms, which rely more on formal control by procedures than the British. Research conducted by Morosini and Singh (1994) examined the relationship between the degree of cultural distance between acquirers and acquired firms and the degree of M&A integration and its effect on organizational performance. Their study

of 65 west European and U.S. firms involved in cross-border acquisitions utilized Hofstede's uncertainty avoidance and individualism/collectivism dimensions to characterize national culture. Their findings showed that the performance of a particular postacquisition integration strategy was related to Hofstede's uncertainty avoidance score for the target firm. An independent postacquisition execution strategy leads to the highest one-year profit margin increase in high uncertainty avoidance nations, while an integration postacquisition strategy led to highly favorable result in countries with low uncertainty avoidance (Morosini and Singh 1994).

Child et al. (2001) and Pitkethly et al. (2003) found that U.S. acquirers imposed both high strategic and high operational control over the acquired company (despite the relatively low U.S. score on uncertainty avoidance of 46), U.K. acquirers exerted high strategic and high operational control (despite the relatively low U.K. score on uncertainty avoidance of 35), Japanese acquirers exercised low strategic and high operational control (with a score on uncertainty avoidance of 92), French acquirers imposed high strategic and low operational control (with a score on uncertainty avoidance of 86), and German acquirers used both low strategic and low operational control (with a score on uncertainty avoidance of 65). Thus, the uncertainty avoidance of successful acquirers manifests itself in an awareness of the possible turmoil and internal rifts that inappropriate (too high) integration may cause; the acquirers therefore try to avoid it. In line with the revisited integration framework, successful acquirers from countries that present a relatively high level of uncertainty avoidance will make great efforts to avoid conflicts and prefer formal processes and procedures. Consequently, their "preservation" approach is characterized by a lower level of autonomy for the acquired management and a higher level of integration (partial preservation) than the full preservation approach implemented by acquirers with lower uncertainty avoidance. Because the preservation approach is characterized by low levels of integration, a relatively small increase in the level of integration seems to cause little conflict. Similarly, acquirers from countries characterized by low uncertainty avoidance that choose the "absorption" approach benefit from lower levels of integration (partial absorption), and those that choose preservation approach will benefit from full preservation. By extension, those using a "symbiotic" approach tend toward an absorption or preservation approach, depending on their level of uncertainty avoidance. Thus, our propositions are as follows.

Proposition 2: Acquirers from countries characterized by low levels of uncertainty avoidance that implement partial absorption and full preservation achieve the highest levels of performance.

Proposition 3: Acquirers from countries characterized by high levels of uncertainty avoidance that implement full absorption and partial preservation achieve the highest levels of performance.

Proposition 4: Under a symbiotic integration approach, acquirers from countries characterized by high levels of uncertainty avoidance tend to implement an absorption integration approach.

Proposition 5: Under a symbiotic integration approach, acquirers from countries characterized by low levels of uncertainty avoidance tend to implement a preservation integration approach.

Postacquisition integration approaches and masculinity/femininity

Child et al. (2001) and Pitkethly et al. (2003) found that U.S. (with a masculinity score of 62) and U.K. (with a masculinity score of 66) acquirers imposed both high strategic and high operational control over the acquired companies, while French acquirers (with a masculinity score of 43) imposed high strategic and low operational control. This is consistent with the respective score of the French acquirers on Hofstede's masculinity dimension (1980).

According to a revisited integration approach framework, acquirers from countries that present relatively low levels of masculinity (high femininity) emphasize, for example, nurturing rather than assertiveness. Therefore, application of the preservation approach by acquirers coming from countries with low levels of masculinity is characterized by higher level of autonomy for the acquired management and a low level of integration (full preservation). Likewise, application of the absorption approach by acquirers originating from countries with low levels of masculinity will require lower level of integration (partial absorption). By extension, symbiotic approaches tend toward absorption or preservation, depending on their levels of masculinity. Thus, our propositions are as follows.

Proposition 6: Acquirers from countries characterized by low levels of masculinity that implement partial absorption and full preservation achieve the highest levels of performance.

Proposition 7: Acquirers from countries characterized by high levels of masculinity that implement full absorption and partial preservation achieve the highest levels of performance.

Proposition 8: Under a symbiotic integration approach, acquirers from countries characterized by high levels of masculinity tend to implement an absorption integration approach.

Proposition 9: Under a symbiotic integration approach, acquirers from countries characterized by low levels of masculinity tend to implement a preservation integration approach.

Postacquisition integration approaches and power distance

Calori et al. (1994) and Lubatkin et al. (1998) investigated also the integration procedures applied by acquirers from different countries. Once again, in line with Hofstede's (1980) national culture dimensions, French acquirers were found to

show higher acceptance of power distance in comparison to British acquirers. This is consistent with Hofstede's cultural dimension of power distance on which the French, on average, are known to score higher than the British.

Therefore, acquirers from countries that present relatively high levels of power distance traits will emphasize the power differences between the acquiring firm and the target firm, treating it as the "conquered" one that has to relinquish its old ways and practices. Thus, the preservation approach implemented by acquirers from countries with high levels of power distance is characterized by a lower level of autonomy for the acquired management and a higher level of integration (partial preservation) than the full preservation approach implemented by acquirers coming from countries with lower levels of power distance. Similarly, the application of the absorption approach by acquirers originating from countries with low levels of power distance necessitates a lower level of integration (partial absorption). By extension, symbiotic approaches tend toward absorption or preservation, depending on their levels of power distance. Thus, our propositions are as follows.

Proposition 10: Acquirers from countries characterized by low levels of power distance that implement partial absorption and full preservation achieve the highest levels of performance.

Proposition 11: Acquirers from countries characterized by high levels of power distance that implement full absorption and partial preservation achieve the highest levels of performance.

Proposition 12: Under a symbiotic integration approach, acquirers from countries characterized by high levels of power distance tend to implement an absorption integration approach.

Proposition 13: Under a symbiotic integration approach, acquirers from countries characterized by low levels of power distance tend to implement a preservation integration approach.

Postacquisition integration approaches and individualism/collectivism

Individualism and its opposite, collectivism, refer to the degree to which society emphasizes the role of the individual versus the group. Individualist cultures emphasize and reward individual accomplishments and expect individuals to focus on satisfying their own needs. Collectivist cultures stress the significance of group loyalty and the wider needs of the organization or community to which an individual belongs.

Lubatkin et al. (1998) examined the integration procedures applied by acquirers from different countries and concluded that, in line with Hofstede's (1980) national culture dimensions, British acquirers showed slightly higher needs for individualism than French acquirers. Thus acquirers from countries that present relatively low level of individualism (i.e., high level of collectivism) will place

great emphasis on the achievement of the group rather than of a single individual. Therefore, the implementation of the preservation approach by acquirers originating from countries with low levels of individualism is characterized by a lower level of autonomy for the acquired management and a higher level of integration (partial preservation). Likewise, application of the absorption approach by acquirers coming from countries with low levels of individualism entail higher level of integration (full absorption). By extension, symbiotic approaches tend toward absorption or preservation, depending on their levels of individualism. Thus, our propositions are as follows.

Proposition 14: Acquirers from countries characterized by low levels of individualism that implement partial absorption and full preservation achieve the highest levels of performance.

Proposition 15: Acquirers from countries characterized by high levels of individualism that implement full absorption and partial preservation achieve the highest levels of performance.

Proposition 16: Under a symbiotic integration approach, acquirers from countries characterized by high levels of individualism tend to implement a preservation integration approach.

Proposition 17: Under a symbiotic integration approach, acquirers from countries characterized by low levels of individualism tend to implement an absorption integration approach.

Conclusions

The major objective of this study is to provide a theoretical framework that addresses the effects of national and corporate cultural distance on various integration approaches, thereby explaining international M&A performance. Specifically, this study proposes that international M&As that approximate their so-called ideal type of integration approach are more effective than other M&As. Furthermore, the theoretical model presented here explains how the specific national and corporate cultural traits of the acquirer firm should be related to its choice of integration approaches. As such, the study delineates the mechanisms for reconciling the mixed empirical findings about the effect of national culture, corporate culture differences, and synergy potential on M&A performance.

Moreover, the theoretical framework emphasizes the role cultural differences play in the choice of integration approaches and provides a solution for the conflicting results of empirical studies about the effect of culture clash and integration approaches on the performance of international and domestic M&As. The theoretical model provides ample opportunities for systematic research on the relationship between cultural dimensions and the way in which cultural differences influence integration approaches. For example, as was done previously for other configu-

rational theories (e.g., Doty et al. 1993), the proposed configuration fit types and their relationship to M&A performance should be tested empirically.

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