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**NAVIGATING THROUGH CULTURAL DIFFERENCES IN CROSS-
BORDER MERGERS AND ACQUISITIONS**

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Abstract

The number of unsuccessful M&As is high and some scholars blame the merging partners for underestimating the importance of culture, especially in cross-border transactions where the dual nature of culture exists. Because cultural differences are too often poorly addressed, the paper attempts to answer the following question: *How can a framework be designed to manage cultural differences and ensure an effective post-merger integration process?* The analysis of four cross-border M&As (two successes and two failures) shows that cultural distance can be an asset or an obstacle to achieving integration outcomes depending on how it is managed. Drawing on the case study findings and literature, the author develops practical steps that merging partners can follow to ensure a smooth blending of cultures in international contexts.

Keywords: cross-border M&As, cultural differences, organisational and national culture, acculturation mode

1. Introduction

Mergers and acquisitions are becoming increasingly popular as companies strive to grow and maintain a competitive advantage in today's global marketplace. However, a large number of those transactions do not result in the expected benefits. Indeed, research indicates that up to 70 percent of deals are unsuccessful (Christensen, 2011) and that very few are capable of enhancing shareholder value (Milligan, 2014). Several authors point out that this might be because the parties involved neglect or do not adequately address corporate culture-related issues throughout the merging process (Shukla, 2014; Hirsch, 2015).

International M&A transactions face additional difficulties since the acquired firm must accommodate to "both a foreign national culture and a new corporate culture", a phenomenon called the "double-layered acculturation" (Rajan, 2010, 3). Cultural clashes often mean increased risks, as misaligned expectations, practices and structures can lead to frustration, employee disengagement and turnover (Coisne, 2014).

However, those cultural issues can also be synonyms of opportunities. While some authors found that cultural differences can enfeeble integration effectiveness (Buono and Bowditch, 1989; Weber et al. 1996), others believe those differences can create value (Larsoon and Risberg, 1998; Morosini et al. 1998) and will force companies to re-evaluate and improve their ways of doing business (Reed et al., 2007).

As research on the topic has been inconclusive, this paper will rather be orientated towards the management of cultural differences, which can lead to competitive advantage in some situations (Stahl & Voigt, 2008).

The paper will be structured as follows. The first section will review the literature to discuss the influence of national and organisational culture on the post-merger integration process and the overall M&A performance. The second and third parts will introduce the research question & objectives and the methodology used in the paper. The fourth section will examine the cultural integration process of four well-known cross-border M&A transactions (two successes and two failures) to explore the range of cultural challenges companies struggled with and how they were managed. The fifth section will summarise case study findings and establish a comparative analysis of the integration decisions and techniques identified as a list of “Do’s” and “Don’ts”. The sixth part will bridge theory and the analysis of four case studies to develop a framework for effective cultural integration in cross-border M&A.

2. Literature review

2.1. Definition of M&A and cross-border M&A

Mergers and acquisitions are frequently considered synonyms, yet they are different from a legal point of view. In a merger, one company is combined with another to create a new entity (Reed et al., 2007) whereas, in an acquisition, a simple transfer of ownership occurs when one firm obtains enough shares to take control over another firm (Evans et al., 2002). Companies seek to acquire or merge with foreign organisations for various reasons, including market dominance, geographical expansion, competence improvements, resource and capability acquisitions, competitive adjustments and executive hubris (Evans et al., 2002).

This paper will focus on cross-border mergers and acquisitions, i.e. transactions taking place beyond the boundaries of a single country as opposed to purely domestic deals.

2.2. The rise of unsuccessful M&As

Despite the popularity of mergers and acquisitions in today’s business world, very few have succeeded in producing synergies (Shukla, 2014). Several scholars believe that the inappropriate execution of integration processes is the main reason for cross-border M&A failures. The phase of integrating two previously separated firms can be the source of value

creation; however, it is considered unimportant by merging firms, with only 8 percent of the time management spends on M&A being devoted to implementation (Evans et al., 2002).

When the integration phase is not well-executed, hard and soft problems may arise and create fragility in the merger. On the one hand, hard issues such as “lack of strategic compatibility, overvalued synergies and lack of well-defined integration plan” (Palacín, 2016, 1) can emerge due to bad strategic planning in the pre-merger stage. On the other hand, soft issues including “cultural issues, problems with the management teams and lack of adequate communication” (Palacín, 2016, 1) occur as a result of poor cultural integration. Cultural integration refers to the harmonisation of management systems and practices and the creation of a common culture & identity for the new organisation (Bauer et al., 2016).

2.3. The influence of culture in M&A and cross-border M&A

The paper will focus on the soft problems and more specifically culture, which is often to blame for harming performance and causing the financial failure of a merger (Zollo and Meier, 2008; Evans et al., 2002). In mergers and acquisitions, a cultural gap exists when there are differences between the culture of the acquiring firm and that of the acquired firm. These differences can either be at an organisational level, national level or a combination of both, especially in cross-border transactions (Garrow and Holbeche, 2000). The more significant the cultural gap, the more it will be an obstacle to achieving synergies (Palacín, 2016).

2.3.1. Organisational culture

Organisational culture refers to how things are done in a business environment and includes “assumptions, beliefs, and values that guide an organisation’s business practices” (Marks and Mirvis, 2011, 861). It shapes attitudes, norms, structures and symbols that are proper to an organisation (Reed et al., 2007; Buono et al., 1985) and reflects the leadership style and decision-making (Garrow and Holbeche, 2000).

Organisational culture is known to bring identity and stability to the members of a group (Schein, 1992; Anderson, 1999), elements that may be damaged when cultures from two organisations collide. Indeed, mergers and acquisitions can be a stressful event for employees (Anderson, 1999), and therefore, cultural issues may emerge including “cultural gap, fear, loss of identity, an “us-and-them” feeling, and breach of the psychological contract” (Palacín, 2016, 6). If left unresolved or inadequately addressed, these issues may lead to a number of negative outcomes that will harm the well-being of the new organisation (Coisne, 2014).

The cultural issues mentioned above can be defined as follows:

- *Fear* refers to the stress employees may feel due to a possible job change or a job loss. This feeling might lead to discontentment, resistance to change, lack of motivation and affect the performance of the new organisation.
- *The “us-and-them” feeling* occurs when employees from both sides of the deal have “distorted perceptions and hostile feelings” about each other (Anderson, 1999, 3). The workforce from one firm may perceive their style and management practices as better than the other company (Anderson, 1999). This feeling can give rise to power struggles and disrupt the performance of the new entity (Buono et al., 1985).
- *The cultural gap*, as previously mentioned, refers to the differences between the culture of the acquiring firm and that of the acquired firm, at an organisational level, national level or both. A too significant cultural distance can create cultural clashes and be detrimental to M&A performance (Palacin, 2016).
- Employees may feel *a loss of identity* as changes in management style, compensation practices, approach to decision making occur in the acquisition (Coisne, 2014). Individuals working in the acquired firm are usually the ones who must adapt their workplace practices and this “may stir up feelings of opposition and resistance that will obstruct the good management of the [...] firm” (Palacín, 2016, 7).
- *The breach of psychological contract* happens in “one-way relationship” situations: employees show commitment to the firm and deliver results but the enterprise does not reward them with the deserved remuneration and recognition, which may ultimately lead to frustration, discontentment and higher turnover (Anderson, 1999).

2.3.2. National culture

Hofstede (2005) defines national culture as “the collective programming of the mind which distinguishes members of one nation from another” (Rajan, 2010, 5). It affects individuals throughout their life, by impacting the way they perceive and understand what surrounds them (Garrow and Holbeche, 2000). According to Olie (1990), national culture also has a significant impact on employee behaviours in organisations (Garrow and Holbeche, 2000) including resolution of conflicts, decision making and employee relationships (Rajan, 2010).

In an attempt to measure and quantify the concept of national culture, Hofstede (1967-1973) came up with a five-dimensional framework. The first dimension, *Uncertainty/Avoidance*, represents “the extent to which a society feels threatened by uncertain and ambiguous

situations” (Hofstede, 1980, 45) and translates into formal or informal procedures in organisations. The second dimension, *Power/Distance*, describes how people from different cultures view power relationships: equal distribution in the society versus power in the hands of few, and is characterised by centralised or decentralised decision making in organisations. The third dimension, *Individualism/Collectivism*, differentiates collective cultures from individualistic ones. In individualistic countries, “people are supposed to take care of themselves and of their immediate families only” (Hofstede, 1980, 45) whereas, in collective societies, “people are born into extended families or clans who protect them in exchange for loyalty” (Hofstede, 1980, 48). In organisations, this dimension is reflected in individual or group rewards. The fourth dimension, *Masculinity/Femininity*, is the extent to which people focus on fortune and competitiveness versus relationships and quality of life (Rajan, 2010) and is characterised by competition or cooperation in firms. The last dimension, *Confucian/Dynamism*, describes the extent to which people are focused on the long-term versus oriented towards immediate results and translates into a short-term or long-term orientation in organizations. The differences in those dimensions will determine how wide the cultural gap is between two nations (Rajan, 2010).

2.4. The acculturation process

The purpose of the post-acquisition phase is to ensure a smooth integration process and to build cooperation in the new entity. Indeed, integration efforts are essential to extract potential synergies between the merging firms (Weber et al., 2011). The partners will determine the desired culture and the degree of change this will require within both firms (Evans et al., 2002).

The collision of two previously separate cultures will make them evolve or endure change voluntarily or involuntarily (Rajan, 2010), which refers to the acculturation process. When the merging firms belong to two different countries, it is called a “double-layered acculturation”, as differences in both national and corporate culture are taken into account (Shimizu et al., 2004). Double cultural adjustments lead to a bigger cultural gap, and thus makes the acculturation process more complicated.

There are four main acculturation types in mergers and acquisitions (Marks and Mirvis, 1994), depending on the degree of change required in the acquired and the acquiring firm: *cultural autonomy*, *assimilation*, *transformation* and *integration* (Figure I).

Figure I. – Strategies for post-merger outcomes

FIGURE 6-2. Strategies for Post-Merger Outcomes

| | | | |
|---|--|---|---|
| | ABSORPTION Acquired Company Conforms to Acquirer– Cultural Assimilation | | TRANSFORMATION Both Companies find New Ways of Operating– Cultural Transformation |
| <i>High</i> | | BEST OF BOTH Additive from Both Sides– Cultural Integration | |
| Degree of Change in Acquired Company | | | |
| <i>Low</i> | PRESERVATION Acquired Company Retains its Independence– Cultural Autonomy | | REVERSE MERGER Unusual Case of Acquired Company Dictating Terms– Cultural Assimilation |
| | <i>Low</i> | | <i>High</i> |
| | Degree of Change in Acquiring Company | | |

Source: P. M. Mirvis and M. L. Marks, *Managing the Merger: Making It Work* (Upper Saddle River, NJ: Prentice Hall, 1994).

The merging partners can choose to blend their current cultures to combine the best of both sides, which is known as a *cultural integration*. However, this acculturation mode is difficult to achieve. In more realistic scenarios, “one group typically dominates the other and influences the direction of cultural change more strongly than the subordinate group” (Marks and Mirvis, 2011, 863). Firms may decide to remain independent and, therefore, maintain their own cultures (Rajan, 2010), which refers to a *cultural autonomy* acculturation type. They may instead agree to leave behind their culture and adopt a new one, a process called *cultural transformation* (Marks and Mirvis, 2011). The last acculturation type is known as *cultural assimilation* and occurs when one firm absorbs the other.

The acculturative tension between organisations may arise when one firm forces its culture onto the other. The acquired firm may reject any intervention, refusing to be separated from its own culture (Rajan, 2010). Employees from the acquired firm may also resist to work and build a shared culture with those from the acquiring company (Marks and Mirvis, 2011). Finally, their loss of autonomy may affect their performance (Weber et al., 2011) and employee retention.

2.5. The cultural distance model

Some scholars argue that differences in national (Weber et al., 1996) and organizational culture (Buono & Bowditch, 1989) can weaken the effectiveness of the integration process and result in cultural risk (David and Singh, 1993). Others believe that these differences “can be valuable to the extent that culturally distant countries may perform even better than culturally similar countries” (Teerikangas and Very, 2006; Stahl and Voigt, 2008).

These contradictory findings are based on the assumptions that a causal effect exists between cultural distance and M&A performance (Coisne, 2014) and that cultural differences are sufficient to explain performance. More recent studies have, however, demonstrated that “factors accounting for M&A success or failure remain largely unexplained” (Coisne, 2014, 1) and encouraged scholars to turn their interest onto the management of cultural differences. The latest research has shown that a cultural gap can be an asset if properly managed (Stahl & Voigt, 2008). It is possible to reduce the effect of cultural differences on performance (Morosini & Singh, 1998) and improve the integration process (Reus & Lamont, 2009) with the use of integration mechanisms.

3. Motivation of thesis: Research question and objectives

Questions related to the research question have been answered in the literature review:

- What influence can national and organisational culture have on the post-merger integration process and the overall M&A performance?
- What type of cultural issues do companies face? How do they arise during the merger?

The research question will be the following: *How could a framework be designed to manage cultural differences and ensure an effective post-merger integration process?*

The final objective of this paper is to define the practical steps required to facilitate cultural integration and to demonstrate how adequately addressing cultural issues can create positive outcomes for the new organisation.

4. Methodology

Multiple data sources including research articles, books and case studies are combined in the paper to enhance “the construct validity of the study” (Yin, 2003, 159).

4.1. The case study method

Case studies are incorporated in the paper among other research methods. The objective of the case study method is to “explain or understand a contemporary phenomenon” (Yin, 1984, 5) such as M&A. It has the benefit of adding a certain source of evidence and of providing illustrations that are absent in research articles and books. A study done by Bengtsson and Larrson (2012) confirms that the case study approach is the most effective despite being too little used. Mergers and acquisitions are considered as special situations and, therefore,

“deserve [...] the idiographic case studies that can provide very complementary understanding of M&A” (Bengtsson and Larsson, 2012, 16). According to those authors, case studies are particularly relevant when it comes to studying the complex part of the M&A process, i.e. the post-acquisition integration process, which is the focus part in this paper. Finally, case studies can provide a fresh view to an already researched subject such as the challenge of cultural integration in cross-border M&A.

4.2. Case selection: justification of sampling

The author chose a series of case studies instead of focusing on one single example. Glaser and Strauss (1967) recommend to perform between 2 and 10 case studies and then to process with a comparative analysis; a method used in the paper. Four international cases will be analysed and compared to each other: two M&A failures and two M&A successes.

The chosen case studies are well-known M&A transactions that the author found to be particularly pertinent in the sense that the cultural factors associated with their post-acquisition process emerged as critical. Moreover, the four of them are related to international deals, which makes it possible to study how the dual aspect of culture adds a challenge in the integration process. Studying related examples can help discovering possible relationships and differences between cases (Glaser and Strauss, 1967), which “has proven to be quite useful in M&A case study research” (Larsson, 1990, 15). Finally, selecting several case studies enables “analytical generalization” (Piekkari et al., 2009, 571). In this paper, M&A deals were not chosen based on sectors or countries to focus on the general influence of culture on cross-border transactions.

5. The analysis of cross-border M&A case studies

This section examines the cultural integration process of several well-known cross-border M&A transactions (two successes and two failures) to explore the range of cultural challenges companies struggled with and how they were managed. The analysis is based on the information provided by public case studies and articles drawing on those case studies.

5.1. Examples of M&A failures

5.1.1. Pharmacia – Upjohn

In 1995, the Swedish pharmaceutical firm Pharmacia and the US-based manufacturing company Upjohn merged with the objective to become “the ninth largest pharmaceutical company in the world” (Belcher and Nail, 2000, 220).

National culture

The cultural distance in terms of national culture between Sweden and the United-States was determined using Hofstede’s dimensions. The differences in each dimension are detailed in the Appendix (Figure II) and the sum of those differences in absolute value is 130, which translates into a relatively large cultural distance between the two countries.

Despite several cultural similarities between the Swedish and American societies, significant differences exist and are reflected in the Uncertainty/Avoidance, Confucian/Dynamism and Masculinity/Feminity dimensions. Indeed, although both countries have a slight preference for avoiding uncertainty, they express it in different ways. In uncertain times, Swedes spend time discussing matters in groups whereas Americans prefer to make quick decisions (Meyer, 2014). Regarding the Confucian/Dynamism dimension, the United-States appears to be a normative society with the following characteristics: preference for maintaining known traditions and norms, cautiousness and focus on short-term performance, which pushes workers to seek quick results (Hofstede, 2003). In contrast, Sweden did not express any preference on this dimension. Finally, the United-States appears to be a masculine society whereas Sweden is a feminine one. In other words, Swedish people value quality of life, care for others and strive for consensus at work while Americans “like to work” and are driven by competition and success (Hofstede, 2003). In conflict resolutions, Swedes are used to compromise and negotiate whereas American people tend take a more aggressive way (Belcher and Nail, 2000).

Organisational culture

The analysis of previously-written case studies on the Pharmacia-Upjohn merger (Belcher and Nail, 2000; Morosini and Coughlan, 2007) showed that those national cultural differences were reflected in the organisational culture of both firms. Pharmacia was used to make decisions by simply discussing and shaking hands whereas Upjohn’s executives wanted “to have everything on paper” (Morosini and Coughlan, 2007, 7). This might refer to Americans’ rigidity and cautiousness, which is reflected in the Confucian/Dynamism dimension.

Furthermore, conflicting management styles between Pharmacia and Upjohn prevented employees from efficiently working together. The Swedish consensus-oriented way of working was in contrast with American's result-oriented working style. Swedes value their colleagues' opinions and, therefore, take time to make decisions whereas Americans strive for short-term results, which might reflect the cultural gap of 57 points between Sweden and the United-States on the Masculinity/Feminity dimension.

Finally, differences in leisure and work habits prevented Pharmacia and Upjohn from realising the synergies they had expected. Customs such as wine over lunch, smoking at work and different vacation times created conflicts between the Americans and their European colleagues and caused "many executive-level meetings to be delayed" (Belcher and Nail, 2000, 226).

Additional challenges and actions

Although Pharmacia and Upjohn showed efforts to get a "first-hand experience of the cultural differences" (Morosini and Coughlan, 2007, 8) between them by drafting a post-acquisition integration plan in the pre-merger phase, they failed to manage cultural differences during the integration process appropriately.

On the one hand, the merging firms decided to keep the offices in Stockholm and Michigan separate and to manage these autonomous operations from London, which led to inconsistent information systems between the two centres (Belcher and Nail, 2000). In parallel, Pharmacia and Upjohn created a top management committee composed by a 50/50 balance of Swedish and American people, which made it difficult to "blend the merged organisation's global strengths into a unified corporate culture" (Coughlan, 2007, 2). This lack of common identity was accentuated by the headquarters fight between Swedish and American employees. It led to strong perceptions on "We" and "They" that Pharmacia – Upjohn struggled to resolve (Morosini and Coughlan, 2007). In the end, London was chosen as a neutral location to respect the cultures of the merging partners, which did not help to resolve the cultural issues.

On the other hand, the American CEO of Pharmacia-Upjohn, Zabriskie, ignored the cultural differences between both companies and, therefore, created distrust amongst the Pharmacia workers. His objective was to perform a quick integration to save costs and to impose its American hierarchical management style on Swedes, although they "were used to a more cooperative management style" (DeFouw, 2007, 17). Moreover, Zabriskie made no effort to create trust across all levels of seniority in both firms (Morosini and Coughlan, 2007, 7). The

CEO's management style made Swedish workers disappointed and uncertain about his intentions, which led to the departure of many key people (DeFouw, 2007).

Despite keeping the two centres in Stockholm and Michigan autonomous, Zabriskie took an "absorption approach" (Burns, 2012, 164), by forcing his American way of working onto the Swedes. Therefore, the integration was driven by a *cultural assimilation* acculturation type. Instead of adapting its style to integrate both companies successfully, its ignorance of cultural differences and territorialism "divided the company and led to value-destroying compromises" (Belcher & Nail, 2000, 231).

5.1.2. Daimler-Benz – Chrysler Corporation

In 1998, two global automakers, the German-based Daimler-Benz and the US-based Chrysler Corporation, merged to share resources & technology (Appelbaum et al., 2009) and to become "the fifth largest automaker in the world" (St Jean, 2004, 1).

National culture

The cultural distance in terms of national culture between Germany and the United-States was determined using Hofstede's dimensions. The differences in each dimension are detailed in the Appendix (Figure III) and the sum of those differences in absolute value is 109, which corresponds to a relatively large cultural distance between the two countries.

Despite cultural similarities between Germany and the United-States, major differences exist are reflected in the Confucian/Dynamism and Uncertainty/Avoidance dimensions. Indeed, Germans tend to adapt easily to new norms and traditions whereas Americans prefer to stick to their own ones (Hofstede, 2003). Moreover, German workers are usually long-term oriented and enjoy persevering at work. In contrast, American employees tend to focus on the short-term and on keeping stability (Hofstede, 2003). Regarding the Uncertainty/Avoidance dimension, Germans show a slight preference for avoiding uncertainty and will, therefore, generally be authoritarian and favour well-defined rules and procedures compared to Americans, who "feel attracted to flexible, ad hoc structures which leave room for improvisation and negotiation (Barkema and Vermeulen, 1997, 848).

Organisational culture

The analysis of previously-written case studies on the Daimler-Benz – Chrysler merger (Finkelstein, 2002; Morosini, 2003; Morosini and Rädler, 2003; St Jean, 2004) showed that some of those national cultural differences were reflected in the organisational culture of both

firms. During pre-merger discussions, Americans found the Germans to be rigid and methodological. They tend to stick to what is written on the agenda while Americans are used to “go off on tangents” (St Jean, 2004, 10), which created tensions when they started working together (Finkelstein, 2002; Morosini and Rädler, 2003). This example reflects differences in working style between Daimler-Benz and Chrysler Corporation and might be related to Germany’s higher preference for uncertainty-avoidance.

Furthermore, the compensation systems of both firms were significantly different. American employees earned up to four times as much as their German peers (Finkelstein, 2002) and “Bob Eaton’s [Chrysler’s CEO] 1997 salary of \$16 million [...] stood at more than eight times Jurgen Schrempp’s [Daimler-Benz’s CEO] salary” (Morosini and Rädler, 2003, 6). This gap created significant management challenges: the Germans rejected the American reward style, as they were used to a “relatively conservative and egalitarian business arena” (Morosini and Rädler, 2003, 6). This might be related to Germany’s slightly lower Power/Distance score compared to the United-States (Figure III).

More generally, Daimler-Benz and Chrysler Corporation had distant organisational cultures and values: Daimler-Benz valued centralised decision making and hierarchy whereas Chrysler supported decentralised decision making, creativity and flexibility. This goes in line with Germany’s higher score on the Uncertainty/Avoidance dimension than the United-States, which translates into a preference for centralised decision making. At the same time, it contradicts Hofstede’s study, which found that because both countries score relatively low on the Power/Distance dimension, they generally express a preference for decentralised decision-making. Therefore, the choice of centralised authority might be proper to Daimler-Benz’s organisational culture.

Additional challenges and actions

Daimler-Benz and Chrysler Corporation showed efforts to understand the cultural distance between their respective countries. They conducted a cultural analysis in the pre-merger stage, created “a new set of beliefs, assumptions and rules of behaviour that exploit the strengths of both of the parent companies” (DeFouw, 2007, 11) and put into practice cultural sensitivity workshops. However, the split between the two firms’ business practices remained unchanged (Finkelstein, 2002) due to a lack of appropriate integration processes.

Organisational cultural differences were not easily understood and accepted by employees from both companies. “Americans often misinterpret the Germans’ need for rules and order as maybe disinterest in doing something” (St Jean, 2004, 10). Moreover, both firms were

convinced that the way they do things is the best way (St Jean, 2004). Finally, some Daimler-Benz employees were unwilling “to share parts with Chrysler’s inferior technology” (Appelbaum et al., 2009, 44). These tensions made it difficult to create a common identity and culture for the new organisation.

The German managers did nothing to resolve this situation of social conflict & employee resistance and showed poor leadership skills. The majority of them considered task integration as more important than human integration (St Jean, 2004). Therefore, they focused on handling decisions and processes from the top without communicating to the rest of the organisation, which led to dissatisfaction among senior staff members who “felt they were [...] being left out of the important decisions” (St Jean, 2004, 3). Although the integration process of this merger was initially driven by *cultural integration* in the attempt to achieve a “merger of equals”, Daimler-Benz ended up forcing its company culture onto Chrysler Corporation and dominating, leading to a *cultural assimilation* acculturation type. Behaving like buyers led to “huge resentment in the American firm” (Hirsch, 2015, 53) and to the departure of key talent.

5.2. Examples of M&A successes

5.2.1. CEMEX – RMC

In 2005, the Mexican building materials firm CEMEX acquired the largest British producer of ready-mixed concrete in the world, RMC Corporation, in order “to consolidate its position as one of the top three global players in the industry” (Harzing and Pinnington, 2014, 143).

National culture

The cultural distance in terms of national culture between Mexico and the United-Kingdom was determined using Hofstede’s dimensions. The differences in each dimension are detailed in the Appendix (Figure IV) and the sum of those differences in absolute value is 185, which corresponds to a large cultural distance between the two countries.

Despite very few cultural similarities between the Mexican and the British societies, Hofstede’s study (1967-1973) pointed out significant differences between them that are reflected in all dimensions, except the Masculinity/Feminity dimension.

First, Mexico has a large power distance score compared to the United-Kingdom (i.e., 81 versus 35). It indicates that hierarchy is more common in the Mexican society and that Mexican employees are generally expected “to be told what to do” while English subordinates

“expect to be consulted” (Hofstede, 2011, 9). Secondly, Mexico is a highly collectivist society and the United-Kingdom a highly individualistic one. It means that ties between British individuals are usually loose whereas Mexican people are “integrated into strong, cohesive in-groups” (Hofstede, 2011, 11). Thirdly, Mexico expresses a much higher preference for avoiding uncertainty than the United-Kingdom, implying that Mexicans dislike ambiguous situations and therefore keep strict rules and are opposed to new ideas (Barkema and Vermeulen, 1997). In contrast, British people are willing to change their plans when further information is provided and favour innovation. Finally, Mexico scores relatively low on the Confucian/Dynamism dimension, which means that the following characterises its society: short-term orientation, preference for maintaining known traditions over adopting foreign practices. With a score of 51, the United-Kingdom has not expressed a preference on this dimension (Hofstede, 2003).

Organisational culture

The analysis of previously-written case studies on the CEMEX – RMC merger (Harzing and Pinnington, 2014; Moffett, 2017) and articles drawing on those case studies (Kanter, 2009; Prokopy, 2006) revealed very few links between the organisational cultures of both firms and the national culture of their respective countries, Mexico and the United-Kingdom. RMC is known to have “different operating practices, structures and cultures than CEMEX” (Harzing and Pinnington, 144). Moreover, RMC was a loose organisation (Prokopy, 2006), which might be associated with United-Kingdom’s relatively low power distance score. Finally, an HBR article drawing on case studies around the merger pointed out resistance among RMC employees toward CEMEX’s strict processes (Kanter, 2009), which might be related to Mexico’s inflexibility and strong willingness to avoid uncertainty.

Challenges and actions

The large and complex structure of the RMC corporation made the human integration challenging. Indeed, the company embodied 17 firms with different languages, cultures and practices (Prokopy, 2006). However, unlike the two previously analysed mergers, CEMEX acknowledged and tackled the cultural differences adequately throughout the merger. An additional challenge came from a cement plant part of RMC that was underperforming (Kanter, 2009) but CEMEX took appropriate action to make the plant efficiently run again.

To address the significant cultural diversity within the RMC corporation, CEMEX studied the country differences and shaped an integration framework during the early stages of the

merger (Harzing and Pinnington, 2014). Moreover, CEMEX initiated a strategy called “the CEMEX Way” with the objective to implement global practices and procedures in all RMC plants (Prokopy, 2006; Harzing and Pinnington, 2014) and to promote employee commitment in the integration process. Alongside sending a maintenance team to the Rugby plant, post-acquisition teams were created and sent there to communicate CEMEX practices. In parallel, “Rugby employees were sent to CEMEX plants in Mexico, the United States, and Germany to experience the “CEMEX Way” [...] and to become change champions upon their return” (Kanter, 2009, 1). Finally, CEMEX employees received cultural training to study what is acceptable or not to do and say in the British society (Kanter, 2009).

Many RMC employees perceived CEMEX as “a company from the third world” (Kanter, 2009, 1) due to its Mexican origins and as a predator with the only purpose to absorb RMC (Moffett, 2017). To eliminate employee resistance and build trust among the RMC corporation, CEMEX created a spirit of knowledge sharing & motivation. Indeed, the CEMEX post-acquisition team worked closely with the Rugby team and allowed them to keep “old systems running side by side with the new” (Kanter, 2009, 1). Furthermore, the Rugby employees felt the team was attentive and open-minded: “they actually listen and seek your advice, and it doesn’t matter if it is not necessarily what they want to hear” (Kanter, 2009, 1). By doing so, the RMC team no longer considered CEMEX as a competitor (Prokopy, 2006) and trusted their new colleagues.

Overall, CEMEX considered human integration as a priority. They implemented well-developed systems and practices to ensure a smooth integration of the firms within the RMC corporation, formed integration teams to blend cultures and spread “the CEMEX Way” to the new entity. In the end, change occurred on both sides of the transaction and, therefore, the integration process was driven by a *cultural integration* type of acculturation.

5.2.2. Publicis – Saatchi & Saatchi

In 2000, the French advertising and communications group Publicis acquired the largest advertising empire and UK-based Saatchi & Saatchi to give the firm “credibility as a world player” (Kanter and Raffaelli, 2009, 8).

National culture

The cultural distance in terms of national culture between France and the United-Kingdom was determined using Hofstede’s dimensions. The differences in each dimension are detailed

in the Appendix (Figure V) and the sum of those differences in absolute value is 137, which corresponds to a large cultural distance between the two countries.

Despite some cultural similarities between the French and the British societies according to Hofstede's study (1967-1973), there are several differences between them which are reflected in the Power/Distance, Uncertainty/Avoidance and Confucian/Dynamism dimensions. First, France has a high power-distance score meaning that there is a good acceptance of societal inequalities and that power is usually centralised in organisations (Hofstede, 2003). In contrast, with a low score of 35, the United-Kingdom focuses on minimising those inequalities and generally favours an even distribution of power in organisations, by using hierarchy for convenience only (Hofstede, 2011). Secondly, there is an important gap between the uncertainty-avoidance score of France (86) and of the United-Kingdom (35), which indicates that British people usually feel comfortable with the unknown whereas French people do not. British people accept the uncertainty in life and at work and take "each day is taken as it comes" (Hofstede, 2011, 10) whereas French people prefer to plan ahead and use rules & regulations to reduce the occurrence of chaotic situations (Hofstede, 2011). Finally, France is seen as a pragmatic society in which individuals are long-term oriented and adapt to changing circumstances. With a score of 51, the United-Kingdom did not express any preference on the Confucian/Dynamism dimension.

Organisational culture, challenges and decisions

The analysis of a previously-written case study on the Publicis – Saatchi & Saatchi merger (Kanter and Raffaelli, 2009) and an article drawing on this case study (Kanter, 2009) disclosed almost no link between the organisational cultures of both firms and the national culture of their respective countries, at the exception of one characteristic of Publicis' culture. During pre-merger discussions, M. Levy (Publicis CEO) told K. Roberts (Saatchi CEO) about their "Frenchness" and their work by consensus rather than instruction (Kanter and Raffaelli, 2009), which might be related to France's high score on the Uncertainty/Avoidance dimension and relatively low on the Masculinity/Femininity dimension (Hofstede, 2003).

Both firms had strong cultures with employees "who valued their own work culture and autonomy" (Kanter and Raffaelli, 2009, 1). Because Saatchi & Saatchi had a "proud tradition of independence and creative excellence" (Kanter, 2009, 1), it was difficult for its employees to accept Publicis were acquiring them. Furthermore, Saatchi's workforce showed no respect to their French colleagues: some of them cancelled meetings, others did not show up (Kanter

and Raffaelli, 2009). Publicis understood that it would be a challenge to make Saatchi employees accept the change in control and convince them to stay in the new organisation.

From an early stage in the merger, M. Levy acknowledged the cultural diversity between both firms and took action to address the cultural clashes. Instead of digging into business and numbers during a meeting with the Saatchi CEO, he focused on learning about their culture and K. Roberts' leadership style. Having the objective to become a trustful business partner, M. Levy was "very engaging, very warm" (Kanter and Raffaelli, 2009, 7) during meetings and made "meaningful welcoming gestures" (Kanter, 2009, 1). Moreover, Publicis accepted to acquire Saatchi & Saatchi for a premium and "used several investment tools to protect Saatchi's directors from significant downside loss" (Kanter and Raffaelli, 2009, 8).

To convince Saatchi & Saatchi they would play an essential role in the future of the new entity, Publicis decided that "K. Roberts would serve on the Management Board" (Kanter and Raffaelli, 2009, 9) and included Saatchi employees throughout the integration process by taking into account their ideas and opinions in meetings. In parallel, Publicis adopted several of Saatchi's best practices, by switching to their operating system and by communicating their ways of working in a book to all employees. Finally, Levy invited the Saatchi CEO to "provide training sessions for Publicis managers" (Kanter, 2007, 1).

Both firms were extremely attached to their respective clients and, therefore, agreed to keep "operations very separate" (Kanter and Raffaelli, 2009, 8) to avoid potential client conflicts that might slow down the integration process. In the end, both firms understood that melding two strong culture would have led to negative consequences and potentially the failure of the merger itself. They kept their own cultures while ensuring collaboration and coordination between the independent networks to avoid any cultural clashes (Kanter and Raffaelli, 2009). It signals that the integration process was driven by a *cultural autonomy* acculturation type, despite a few changes that occurred in the acquired firm such as the adoption of Saatchi's operating system.

5.3. A comparative analysis of findings

The following tables summarise the case study findings. The Table 5.3.1 establishes a comparative analysis of the integration decisions and techniques identified, as a list of "Do's" and "Don'ts" and Table 5.3.2. highlights the main consequences.

Table 5.3.1: Do's and Don'ts in cross-cultural integration

| DO's | DON'Ts | CASE REFERENCES |
|---|---|--|
| Acknowledge cultural differences in pre-merger phase by assessing the cultural profile of the acquired firm | | Daimler-Benz – Chrysler Pharmacia – Upjohn CEMEX – RMC Publicis – Saatchi & Saatchi |
| Choose the appropriate acculturation type | | CEMEX – RMC Publicis – Saatchi & Saatchi |
| | Force the culture of the acquiring firm onto the acquired firm | Daimler-Benz – Chrysler Pharmacia – Upjohn |
| | Fail to put time and effort into managing the cultural differences identified | Daimler-Benz – Chrysler Pharmacia – Upjohn |
| Manage cultural differences and create enabling integration processes | | CEMEX – RMC Publicis – Saatchi & Saatchi |
| Ensure knowledge sharing and interaction between employees of both firms | | CEMEX – RMC Publicis – Saatchi & Saatchi |
| Run old systems alongside the new to reduce employee resistance to change | | CEMEX – RMC |
| | Give priority to task integration | Daimler-Benz – Chrysler |
| | Perform a quick integration to save costs | Pharmacia – Upjohn |
| | Use inadequate leadership style and fail to communicate changes to employees | Daimler-Benz – Chrysler Pharmacia – Upjohn |

Table 5.3.2: Consequences of cultural integration decisions and techniques

| M&A SUCCESSES | M&A FAILURES |
|--|---|
| CEMEX – RMC Publicis – Saatchi & Saatchi | Daimler-Benz – Chrysler Pharmacia – Upjohn |
| Employee commitment Trust Social cohesion Common identity Employee retention Knowledge transfer | Employee resistance Distrust Social conflict Dual identity Employee turnover No / Limited knowledge transfer |

6. A framework for effective cultural integration in cross-border M&As

Companies must recognise that “people, not numbers, determine the fate of most mergers or acquisitions” (Anderson, 1999, 12) and people should, therefore, be the centre of focus throughout the merging process. The creation of a shared culture is a prerequisite to achieving the expected operational synergies. (Coisne, 2014). The merging partners should not only acknowledge cultural differences but also manage them appropriately, by implementing integration techniques that will increase the acceptance to change among employees from both sides of the transaction.

Companies should recognise that although cultural issues such as social conflicts, uncertainty and stress can rarely be removed, those can be alleviated by choosing the appropriate acculturation strategy and by defining integration objectives and practices that will “strengthen the desired culture” (Palacín, 2016).

Drawing from the analysis of the four previously analysed M&A case studies and recommendations made by several scholars, this section suggests a four-step framework to manage the complexity of integrating both national and organisational cultures in cross-border mergers and acquisitions.

Step 1: Conduct cultural assessment and define an action plan in due diligence phase

The merging partners should start the integration process already from the due diligence phase (Laksman, 2011). The executive teams and HR specialists should carry out a cultural gap assessment to assess how different cultures are, at both organisational and national level (Vlasselaer et al., 2015). This exercise will help “to identify areas of divergence which could

hinder the integration process” (Anderson, 1999, 11) and to determine the culture that will be accepted by employees.

Research shows that “the amount of planning that goes into a merger will definitely reflect in the success of the deal” (DeFouw, 2017, 22). Therefore, it is essential to define an action plan with integration mechanisms, following the cultural assessment, to properly address cultural clashes that might arise during the integration phase (Palacín, 2016), which the Pharmacia – Upjohn and Daimler-Benz – Chrysler mergers failed to do.

Step 2: Create a post-merger integration team

The merging partners should create a group of integration leaders that will actively participate in the cultural integration process. According to literature, they “play a critical role in the process of such integration, especially in international acquisitions” (Laksman, 2011, 610) where the dual nature of culture represents an additional challenge (Coisne, 2014).

The integration leaders will be responsible for supporting employees during the organisational change and for achieving the desired culture (Vlasselaer et al., 2015). It requires excellent leadership skills and the ability to create “the right climate for knowledge sharing” (Laksman, 2011, 617) between the two firms; elements that were seen in the CEMEX – RMC merger.

Step 3: Select the appropriate acculturation mode and properly integrate the two firms

Based on the cultural assessment, the merging partners should select the right acculturation strategy, ranging from total autonomy to total integration (Figure I). It consists of deciding what cultural aspects of the acquiring and the acquired firm are important to the success of the merger and should, therefore, be integrated into the new organisation or instead be rectified or eliminated (Anderson, 1999; DeFouw, 2007). This step was carefully considered by Publicis and Saatchi & Saatchi due to their very strong corporate cultures.

The merging partners should then work on aligning their structures and processes. It has been recommended to run the old firm alongside the new one before combining them into one entity. This will help “people retain their identities, avoid too much change all at once, and learn new ways with open minds” (Kanter, 2009, 1); a strategy adopted in the CEMEX – RMC merger.

Step 4: Communicate change and include employees in the integration process

Throughout the integration process, the CEO of the new entity and the integration leaders are expected to communicate the changes to employees “at all levels and at all states of a deal”

(DeFouw, 2007, 20) and to implement them accordingly. Taking an honest and inclusive approach will help to reduce “feelings of fear, anxiety, confusion [and] discontentment” (Palacín, 2016, 11) among the workforce and creating a climate of trust.

Finally, it is important to make employees participate in the integration phase (Palacín, 2016). It will empower them and, thus, facilitate their acceptance to change and willingness to unify the two companies (Coisne, 2014), as it was seen in the Publicis and Saatchi & Saatchi merger. On the one hand, the integration leaders should promote learning opportunities such as workshops and training programs that will encourage employees to learn about the cultural differences between both firms and their respective countries. On the other hand, they should create a sense of trust in their new colleagues, which will make them more willing to share knowledge (Coisne, 2014). For instance, face-to-face interactions played a key role in connecting employees and knowledge sharing in the CEMEX – RMC merger.

7. Conclusion

Research indicates that few M&A transactions succeed in today’s business world and several scholars are convinced this is the result of poor cultural integration throughout the merging process. Indeed, finding a way to balance and integrate two cultures is known to be “one of the most significant challenges” (Reed et al., 2007, 661), especially in cross-border M&As where cultural distance at both organisational and national level must be taken into account.

The analysis of the two M&A failure cases showed that neglecting or inappropriately managing cultural differences can result in social conflict and dual identity and severely compromise the merger. Forcing the culture of the acquiring firm onto the acquired one has been identified as a common mistake that led to employee resistance and turnover in both mergers. On the other hand, the analysis of the two M&A success cases proved that when the merging partners put time and effort into the merger process, cultural differences can transform into positive outcomes for the new entity such as employee commitment and knowledge transfer.

In response to the thesis question, a framework was built to help companies in the process of merging different cultures. Despite its limited applicability – being based on a limited number of case studies and the few existing models on post-acquisition integration – the framework provides good general guidance to cultural integration in international contexts. By following the four practical steps, the merging partners will tackle the integration phase as a change

management situation, have approaches ready to support employees in the organisational restructuring and maximise the achievement of operational synergies (Laksman, 2011).

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