

Bridging the cultural divide in cross-border mergers and acquisitions: a synergistic learning perspective

Introduction

Cross-border mergers and acquisitions are a common form of inorganic growth, suitable for reaching international markets, finding new profitability sources and making economies of scale (Stahl, Mendenhall, Pablo, & Javidan, 2005). In spite of this growth potential, numerous cross-border M&A have reported failure (Zollo & Meier, 2008), often blaming cultural differences for hampering performance (Cartwright & Price, 2003).

The stream of research into the influence of culture on M&A performance has suffered from two main limitations. The cultural distance paradigm which has dominated research for the past 30 years rests on the assumption that difference means discordance. Cultural distance and its proxies have excluded cultural dynamics from their field of analysis and disregarded the interplay between cultures (Teerikangas & Very, 2006; Shenkar et al, 2008).

Cross-border M&A, through the combination of cultural systems incorporating national and organizational cultures, provide an exciting research field for leveraging cultural dynamics in organizations. Two cultural communities are brought together which share different frames of reference and work practices. If not relevantly addressed, this double-layer acculturation process (Barkema et al, 1996) may not turn the potential threats of cultural confrontation into the achievement of effective cooperation (Morosini, 1998).

This conceptual paper draws from the process (Haspelagh & Jemison, 1991) and organizational learning (Schweiger & Goulet, 2005) perspectives to investigate the management of cultural dynamics in cross-border M&A integration. Considering that culture brings about disruption as well as synergy (Reus & Lamont, 2008; Vaara et al, 2012), it argues that effective integration is achieved through interventions that bring about synergistic learning and set a new culture in motion.

The contribution of this conceptual paper to the cross-border M&A literature draws to the potential of synergistic learning for performance: deep, mutual learning facilitates both human and task integration in bringing about understanding while transferring knowledge resources.

The issue of leveraging cultural differences in cross-border combinations highlights the paramount importance of increased cultural awareness and agility in international business.

The paper is divided into 3 sections: the first section looks into the challenges of cultural dynamics in cross-border M&A; the second section applies the organizational learning perspective to double-layer acculturation and the third section probes integration effectiveness in the light of synergistic learning.

Section 1 – Cultural dynamics in M&A

The relationship between culture and performance lies at the heart of the international management and cross-cultural management streams. The trend toward more globalized economies demands that individuals and organizations leverage cultural differences for performance. In the case of M&A, two organizations become one and two cultural systems are brought together to produce joint deliverables, which points to the pivotal role of cultural dynamics, as the way in which cultural systems come together.

Cultural dynamics has been under-researched: for the past 30 years, academia has adhered to the cultural distance paradigm (Stahl & Voigt, 2004) which has explored differences between cultures and investigated the influence of pre-merger cultural features on post-merger outcomes. Although the contribution of this stream of research has been substantial and advanced understanding of organizations' cultural attributes, its findings remain inconclusive (Teerikangas & Very, 2006; Stahl & Voigt, 2008).

The cultural distance hypothesis

Cultural distance, mostly in the form of an index compiled by Kogut and Singh (1988) from Hofstede's cultural dimensions (1980), stipulates that as distance between cultures widens, difficulties increase. Some studies confirm the assumption that cultural distance taxes performance (Buono & Bowditch, 1989; Weber et al., 1996). The human perspective provides evidence of the negative feelings generated by culture through ethnocentric attitudes, (Nahavandi & Malekzadeh, 1988), stereotyping or dominance modes (Jemison & Sitkin, 1986). The organizational perspective shows that the realization of strategy (Very et al, 1996) and post-merger stock performance (Chatterjee et al, 1992) are hampered by cultural differences. However, opposite findings point to the equivocal influence of culture on performance (Stahl & Voigt, 2008), demonstrating that cultural distance also enhances performance (Teerikangas & Very, 2006; Weber et al, 2008). Research evidences the

beneficial influence of cultural differences on post-combination performance with such outcomes as synergies (Larsson & Risberg, 1998), sales growth (Morosini et al, 1998) or reduced employee resistance (Larsson & Finkelstein, 1999). Table 1 summarizes some of the mixed findings generated by the cultural distance paradigm and its proxies (cultural fit, culture, cultural compatibility and management style similarity) on cross-border M&A performance.

Findings support cultural distance paradigm	Findings do not support cultural distance paradigm
Differences in management style negatively influence performance of cross-border M&A (Schoenberg, 2004)	Differences between national cultures result in increased return on equity (Barkema et al, 1996)
National and corporate culture fit positively influences integration in cross-border M&A (Weber et al, 1996)	A greater distance in national cultures will positively influence M&A performance (Morosini et al, 1998)
Differences in national, organizational and professional cultures result in cultural risk (David & Singh,1994)	Cross-border deals are more successful in achieving synergy realization (Larsson & Risberg,1998)
Cultural incompatibility in domestic and cross-border M&A brings results hampers performance (Very, Lubatkin, Calori & Veiga, 1997)	National cultural differences elicit perceptions of attraction rather than stress (Very, Lubatkin & Calori, 1996)

Table 1: the culture-performance relationship in cross-border M&A

The reasons for these mixed results are to be found in the conceptual and methodological concerns surrounding the cultural distance construct (Teerikangas & Very, 2006). On the conceptual ground, studies have investigated different levels of culture, mostly national or organizational but also professional (David & Singh, 1994), thus making it difficult to interpret and generalize findings (Stahl & Voigt, 2008). Likewise studies of cross-border

M&A have seldom probed the 2 levels simultaneously, suggesting that only one culture is at play in the combination (Cartwright & Price, 2003).

On the methodological ground, studies have assumed symmetry and continuity of cultures (Shenkar et al, 2008), explored different fields of industry and considered different outcome measures, whether financial (Return On Equity, Return On Investment, Return On Assets, Return On Sales, Earnings Per Share, share price, growth in revenues) or non-financial (broadened market share, extended customer base, increased product range, improved competitiveness, greater efficiency of operations, job satisfaction, meeting the strategic goals). Their respective conclusions have made comparisons and generalizations difficult (Shenkar, 2001) although they have provided additional interest into performance measurement issues. In spite of well-documented evidence that cultural distance is not the most reliable tool to account for the influence of cultural differences on M&A performance, researchers keep using this measure (Shenkar et al, 2008).

Two main motives should redirect researchers' attention. First, the assumption of distance as discordance reflects ethnocentric views and maintains the negative bias on which the concept rests, implicitly denying the fact that difference may lead to complementarities (Shimizu et al., 2004). In recent literature the benefits of diversity have been emphasized: diversity is believed to have the potential to provide more scope, more creativity and more variety in devising solutions to organizational problems (Adler, 2002; Cox, 1993). Endorsing cultural diversity may bring about expanded meanings, multiple perspectives and multiple interpretations, thus generating greater openness to new ideas, increased flexibility and creativity in problem-solving whereas ignoring cultural diversity may lead to difficulties converging meanings, decisions or actions, as well as ambiguity, complexity and confusion (Adler, 2002; Cox, 1993). A Mc Kinsey study (2012) reveals that more diverse boards generate better performance. Consequently invalidating the thesis that distance is harmful opens a new path.

Second, moving away from the cultural distance paradigm shifts the focus to cultural dynamics. In perpetuating the cultural distance assumption, most studies assume that cultural distance has a direct causal effect on performance: they focus on pre-merger cultural differences and their relationship with post-merger outcomes, promoting a static view of culture (Teerikangas & Very, 2006). Much is to be gained from looking into the black box of cultural dynamics. The way one culture comes into existence in relation with another culture

in the context of cross-border M&A is an exciting research field which suggestions of leaving cultural void (Morosini, 1998), closing distance (Shenkar et al, 2001) or taking off the methodological and conceptual straightjacket of the cultural distance hypothesis (Shenkar et al, 2008) keep drawing attention to. In summary, research has been overly optimistic in assuming that post-merger outcomes can be predicted by a composite measure of national cultural differences in isolation from the wider integration process (Stahl & Mendenhall, 2006) and has neglected the importance of looking into cultural dynamics, the way one culture comes into existence with another. “How different one culture is from another has little meaning until those cultures are brought into contact with one another (Shenkar, 2001, p.527-528).

The challenges of cultural dynamics

The reasons why cultural dynamics should be addressed are to be found in the essence of culture in interaction: culture has the potential for both disruption and synergy (Morosini, 1998). Cultural differences often translate into culture clash which leads to irreversible damage such as loss of talent and capabilities or chronic resistance (Nahavandi & Malekzadeh, 1988) and acculturative stress (Very et al, 1996).

In literature, cultural confrontation is predominantly explained by social categorization mechanisms and social identity theory (Tajfel, 1974) outlines most of the negative tensions occurring in M&A. In a combination process, social groups unconsciously identify themselves in opposition to others: by showing a positive bias towards members of their in-group and a negative one towards members of the out-group in order to reinforce their relative standing, they develop an ‘us versus them’ attitude which negatively impacts relationships and leads to stereotyping, defense mechanisms (Nahavandi & Malekzadeh, 1988) and power struggles (Sales & Mirvis, 1984). Under conditions of threat and/or when the out-group is perceived to be very different from the in-group (Elsass and Veiga, 1994), increased cohesiveness of the in-group and resistance to the out-group will hamper cooperation (Stahl and Sitkin, 2005). In cross-border M&A, these feelings may also be exacerbated by national stereotyping and xenophobia (Vaara, 2003). Feelings of hostility and distrust may also be displayed by organizational members when one organization attempts to dominate the other (Jemison & Sitkin, 1986) harming post-merger integration. When Daimler merged with Chrysler, the official announcement of a “merger of equals” strangely contrasted with the management imbalance in structure and operations which aroused negative feelings of

German domination among the Chrysler team. The lack of equity in role allocations and the cultural collateral damage led to ultimate failure of the merger (Badrtalei & Bates, 2007).

Whereas social identity theory clarifies the negative outcomes of cross-cultural contact, information theory (Van Knippenberg and Shippers, 2007) substantiates the positive outcomes derived from cultural differences in knowledge transfer. It suggests that diverse groups benefit from enriched information sources and outlooks, combined resources and synergistic outcomes. More diversity in origins and practices should enrich the pool of talents and ideas likely to benefit organizational operations (Cox, 1993; Adler, 2002). Differences in cultures and systems help firms break rigidities and decrease inertia, develop richer knowledge structures and foster innovation and learning (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001). Cross-border M&A give access to different routines and repertoires embedded in different national cultures which have the potential to enhance the combined firm's competitive advantage (Morosini et al, 1998). The European consortium between French, Spanish and German corporations, EADS, typifies the benefits of cross-cultural learning and innovation; learning from past mistakes and making the most of cultural differences have been instrumental in the rise of an aeronautics giant (Barmeyer & Mayrhofer, 2007).

Reversing the assumption of distance as discordance and taking advantage of the positive effects of culture may well be the first step in making a U-turn on the way to M&A performance. The second step is to explore integration dynamics: how to balance the impeding and enriching effects of cultural dynamics (Reus & Lamont, 2008; Vaara et al, 2012, Zollo & Singh, 2004) to generate performance is the issue at stake. Taking advantage of culture potential for synergy while minimizing its adverse effects (Blanchot, 2008) implies managing the tensions between culture as an alibi for conflict and a source of value creation and learning (figure 1).

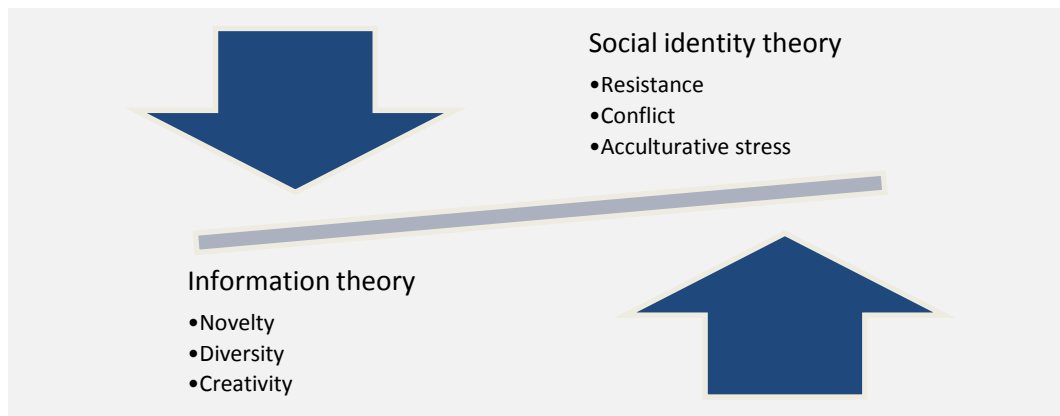


Figure 1 – Addressing tensions in cultural dynamics

Leveraging cultural differences for performance is contingent upon the extent of integrating the two firms. From an organizational integration perspective, cultural differences are not likely to be an issue for unrelated M&A guided by financial gains whereas integration requires planning and guidance if expected synergies are to be captured (Rottig, 2007). Slangen (2006) found that differences in national culture had a negative effect on post-acquisition performance when the acquired unit was tightly integrated into the acquiring company, but a positive effect when loosely integrated. The degree of contact or interface needed between cultures to reach strategic objectives determines the relevance of cultural integration. Organizations have the choice of integration modes depending on the need for strategic interdependence and organizational autonomy: from total preservation through symbiosis to total absorption (Haspelagh and Jemison, 1991). The balance between these needs determines the degree of integration and the extent of cultural dynamics. In summary, cultural dynamics will take place when there is a minimum degree of needed cooperation and will intensify as high integration translates into more interdependent processes and functions.

Section 2 - Double-layer acculturation and the organizational learning perspective

How integration teams address the tensions between the negative and positive implications of culture in cross-border M&A is not only contingent upon the extent of cultural dynamics but also on the dual nature of cultural differences. Tensions are magnified as cross-border deals address double-layered acculturation, a process whereby two national and organizational cultures come together (Barkema et al, 1996).

Double-layer acculturation

In anthropology, acculturation is defined as changes in cultural systems resulting from contact and diffusion of cultural elements in both directions (Berry, 1990). The process develops at group and individual levels through the three stages of contact, conflict and adaptation. Studies into double-layer acculturation of organizations indicate that problems related to differences in organizational cultures are compounded further by national culture differences (Stahl & Voigt, 2005). Nahavandi & Malekzadeh's model of acculturative stress (1988) suggests that the degree of congruence between acquiring and acquired firms' preferred modes of acculturation diminishes the amount of stress and conflict in integration and highlights the influence of national preferences for certain types of integration approaches and management practices. Indeed, national identification may be an obstacle to the process as it influences how employees make sense of integration (Calori et al, 1994) and may lead to ethnocentrism and stereotyping attitudes (Vaara, 2003). However, the acculturation perspective applied to M&A also suggests that success depends on the dynamic processes by which the combining parties resolve the conflicts that arise as a result of their contact: it points out that the transfer of knowledge depends on the establishment of a cooperative relationship (Larsson & Lubatkin, 2001). Achieving a wider knowledge base across different cultures is a determining factor of the combination's success and occurs through knowledge sharing (Haspelagh & Jemison, 1991). If, from a knowledge perspective, differences rather than similarities between merging organizations create opportunities for synergies (Shimizu et al., 2004), then knowledge sharing can be a powerful tool to relieve cultural tensions (Holden, 2001) and reach performance. The centrality of the knowledge acquisition and transformation process needs to be underlined in situations where knowledge transfer is the *raison d'être* of the combination (Lakshman, 2011).

Considering organizational and national cultures as knowledge systems (Gregory, 1983) which serve as a basis for interpreting experiences and generating actions brings a more positive focus on cultural dynamics. Learning about the other cultural system should facilitate transfer of knowledge (Kogut and Zander, 1992) which incorporates both the relatively tacit "know why" rooted in both national and organizational culture and the explicit "know what". By giving the keys to cultural knowledge systems, learning should help undermine the negative implications of cultural confrontation and take advantage of the mutual teaching and learning exchanges. In other words, learning should be a powerful tool to prevent culture clash and foster understanding. In cross-border M&A, many misunderstandings and communication gaps occur because organizational members lack the means to decode and

interpret “the whys beneath the whats” (Marks & Mirvis, 2011, p.868). Acculturation is likely to be facilitated by learning about cultural differences between combining firms (Olie, 1990); through mutual learning, differences are identified, disagreements are clarified and cooperation may be initiated on the basis of shared understandings. Cooperation is a process that can hardly be activated without the support of cultural learning in the early stages of integration (Weber and Camerer, 2003) since organizations from different national and organizational backgrounds must understand each other’s business practices, work values and assumptions before they take advantage of combination potential.

Cultures as knowledge systems

Learning develops in circles to address potential clashes and resolve misunderstandings. Cooperation is reinforced through the implementation of this ongoing learning process which generates a virtuous integration cycle (figure 2).

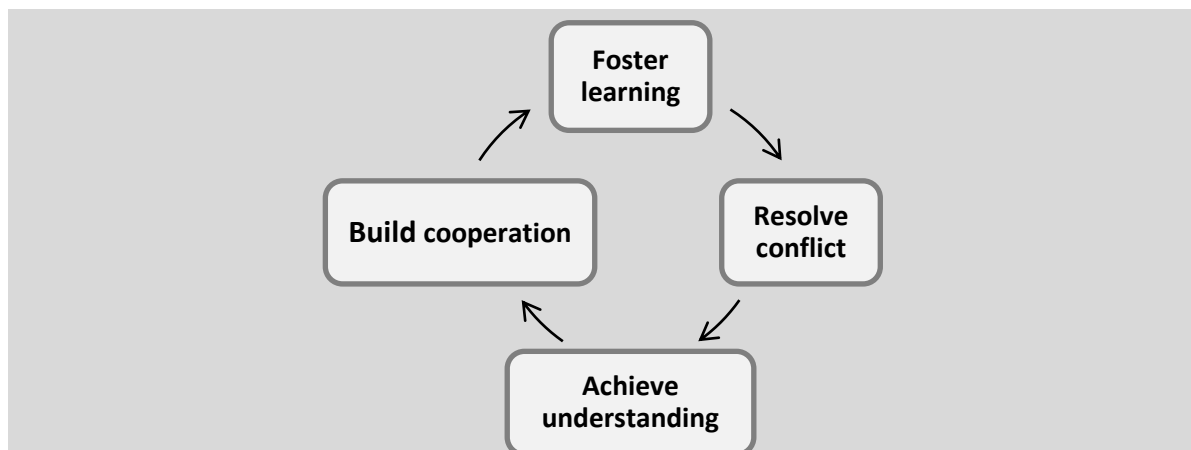


Figure 2- The virtuous cycle of acculturation through learning

In cross-border M&A, the issue of how a company holistically combines national and organizational culture differences to generate superior execution is critical: on the one hand, there are explicit processes, routines, procedures and codes in organizational cultures that task integration engineers in addressing knowledge transfer and operational synergies (Morosini, 2005). These explicit processes, routines, procedures and codes are relatively easily adjusted or transformed: they can be written and demonstrated. In other words, they can be codified in order to be transmitted and contribute to understandability (Reus & Lamont, 2008). On the other hand, there are “implicit, subjective, experience-based processes and repertoires tacitly embedded within groups and individuals as well as attitudes and values” (Morosini, 2005)

that need to be addressed to achieve cooperation and social cohesion. Subjective knowledge is knowledge that is not easily identified and codified: it is usually not written and has to be explained to be transmitted. It includes routines and repertoires underlying objective knowledge that cannot be explained without decoding mechanisms. Subjective knowledge refers to the processes, routines and repertoires which have proved successful in building and growing the company (Schein, 1996) and reflects the national culture values and assumptions in which they are embedded. They explain differences in management processes such as planning, leading, organizing and controlling issues and deal with reporting, decision-making, recruiting, training, troubleshooting mechanisms that are used by each entity in their daily operation. Subjective knowledge is a cognitive dimension based on experience-based understanding of complex phenomena such as national culture assumptions which are difficult to formalize, though essential to business performance (Morosini, 2005). Combinations may have to bridge differences in relationships between organizational members and their leaders, differences in perceptions of work organization, differences in perceptions of the relationship with time and the environment. More formal, hierarchical modes of operation may need to be reconciled with more collaborative structures; team-based operations with more individualistic approaches, long-term, inward-looking approaches with more short-term, far-reaching perspectives. David & Singh (1993) theorize the complexity of cultural access to understanding by suggesting that frontstage culture (formally communicated, relatively standardized understandings that guide employee conduct) coexists with backstage culture (less formally communicated, more ambiguous or divergent understandings that guide conduct). Cultural conflict results from imperfectly shared understandings arising when people who differ in backstage culture must work together. Therefore bridging cultural gaps through backstage cultural learning is essential to a successful integration process (David & Singh, 1993). The challenges of double-layer acculturation are echoed in Weber & Camerer (2003) experimental study of conflict in M&A which hypothesizes that the extent of conflicts is unexpected because observers focus on tangible aspects of firm's practices (such as technology, capital and labor costs) and ignore aspects that are more difficult to measure such as culture: when not addressed, conflict between the merging firms' cultural conventions for taking action is not dealt with and intensifies. Companies that are able to develop common cultural conventions are more efficient: they build shared understandings for interaction.

The pivotal role of deep-level cultural learning is evidenced in Schweiger and Goulet's study (2005) as it reduces misunderstandings and minimizes the buildup of negative feelings.

‘Deep-level’ cultural learning, learning about backstage culture, enhances dialogue between the combining firms and minimizes the effects of information filtering. It results in a clearer, more favorable picture of each combining partner, thereby increasing the acceptability of each partner’s culture. Conversely, ‘surface-level’ cultural learning, learning about front stage culture, does not provide the shared understandings necessary for integrating firms to move beyond the trauma of acquisitions. The authors identify deep-level cultural learning interventions as capable of bridging the cultural divide in the early stages of integration.

In summary, fine-tuning between national and organizational culture differences is a daunting task but also a lever for successful acculturation. As noted by Buono, Bowditch and Lewis (1985): “since culture evolves over time as a product of shared experience, when attempting to merge two firms, the greater the number of these shared experiences, the faster a repertoire of symbols and shared meanings will develop with which the merged group of members can begin to identify, and a new culture can begin to take hold.” Shared meanings come about once teams have understood each other’s operating modes. In this process, cohesion of cross-cultural teams occurs through shared practices and not values. Cultures may keep their own work justifications and still work together and jointly perform tasks. Cross-cultural teams agree on mutually beneficial objectives without questioning their cultural anchors because they understand explicit and implicit culture. Based on their understanding, they develop new repertoires of meanings and practices which set a new culture in motion.

When apprehended in the form of a dynamic knowledge system, culture can be addressed more proactively and positively (Morosini, 2005), reversing the cultural distance paradigm assumption that difference is harmful. Shared meanings and shared experience are the fertilizers of cooperation. We consequently argue that synergistic learning, deep mutual learning about each partner’s implicit and explicit knowledge, is a powerful tool to offset the negative implications of culture and create value. Since mergers and acquisitions are major organizational changes which place great strains on integration dynamics, the creation of a new culture and corporate identity after a merger (Larsson & Lubatkin, 2001) as well as the transfer of capabilities and resource sharing (Bjorkman et al. 2007) are integration outcomes facilitated by synergistic learning.

Section 3 – Synergistic learning and cross-cultural integration effectiveness

Few studies have investigated the influence of post-deal learning dynamics (Larsson & Finkelstein, 1999; Shimizu et al, 2002; Stahl & Voigt, 2008) on integration effectiveness. In M&A literature, the process stream (Jemison & Sitkin, 1986; Haspelagh & Jemison, 1991) has emphasized the critical role that the integration process plays in the actual combination of previously independent organizations: traditional factors used in predicting performance (strategic fit, payment method, acquisition premium paid) are useful only if the post-combination transition phase is effectively managed, an invariant in the M&A literature over the past thirty years (Cartwright & Schoenberg, 2006). Integration refers to the managerial actions taken to combine merging entities and is another mediating mechanism between potential and performance (Larsson, 1989; Pablo, 1994) which builds on the right integration approach (Weber et al, 2011).

Integration is a complex and iterative process made of two interdependent and complementary sub-processes (Birkinshaw et al, 2000; Stahl & Voigt, 2008); socio-cultural integration also referred to as human integration and organizational integration also referred to as task integration. Human integration effectiveness is reflected in the extent to which employees express satisfaction towards the new combination; task integration effectiveness is reflected in the extent to which operational synergies are realized. Research demonstrates that overall integration effectiveness is the outcome of an interactive process, requiring both sociocultural and task integration efforts (Birkinshaw et al, 2000): poor socio-cultural integration often blocks successful task integration and task integration cannot be realized if effective sociocultural integration has not been achieved (Schweiger, 2003). The creation of a new culture is brought about by human integration while transfer of capabilities, resource sharing and learning pertain to task integration.

Cross-cultural learning: like a bridge over troubled cultures...

We contend that synergistic learning meets integration effectiveness requirements in addressing both human and task processes: it has the potential to prevent conflict and resolve misunderstandings, to reduce ambiguity and fight against distrust while at the same time taking advantage of the resource-sharing opportunities contained in different national and organizational mindsets. Shared learning experiences make it possible to leverage cultural differences for integration effectiveness.

Post-deal learning dynamics are often experiential and the result of a trial and error process (Chevrier, 2003). Individuals draw from personal qualities such as tolerance and respect to devise solutions to organizational problems. Resorting to professional cultures may feed the learning process as well: national and organizational cultures are by-passed in interaction.

Although these attempts may be successful, they may slow down the M&A integration process. To enhance cultural dynamics, learning should incorporate structures and procedures for cultural understanding and facilitation. As Holden states (2001, p. 307), “the mere management of cultural differences is less important than creating environments, structures and procedures for facilitating cross-cultural learning and knowledge-sharing”. As a driving force of execution, learning involves formalizing structures and procedures to guide the virtuous circle of integration.

Understandability or articulability of knowledge (i.e. codifiability) provides for explicit knowledge transfer, i.e. the extent to which practices and routines can be codified and taught to organizational members and enhances task integration (Reus and Lamont, 2008). Some organizations have developed knowledge management systems that make it possible to instantly share explicit knowledge. In cases where knowledge management systems have not been developed, explicit knowledge has to be transmitted to organizational members together with implicit knowledge. Such formal mechanisms as cross-cultural awareness seminars or training sessions are necessary to transfer and decode knowledge. They are cultural clarification programs that develop mutual understanding of dual knowledge systems while creating shared learning experiences and setting a cultural integration process in motion. In such culture awareness programs, partners, through mirroring exercises, decode each other’s perceptions around a given task or process or objective. They consequently do not lose valuable time to proceed with business operations and can focus on those market and customer issues that are vital to business continuity. These sessions are sponsored by integration team members (Teerikangas et al, 2011) and may be led by cultural mediators (Chevrier, 2003) that belong to outside organizations. In Schweiger & Goulet’s study (2005) which demonstrates that cross-cultural dialogue results in better understanding of organizational stakes and greater engagement towards the combination, cross-cultural dialogue brings employees from the two previous organizations together to discuss cooperation objectives and clarify practices, values and assumptions in view of these objectives. Cross-cultural dialogue takes the form of workshops in which participants reflect upon and discuss each other’s cultural perceptions and unearth possible barriers to

cooperation (Schweiger & Goulet, 2005). These mutual learning experiences avoid the shortcomings of one-way communications such as tell presentations or official memos that reinforce cultural stereotypes and strengthen perceptions of differences.

Deep organizational learning develops through the dynamics of sharing the ‘whats’ and the ‘whys’. The benefits of such clarification sessions are immense; they enable partners to speak the same corporate language and create common cultural conventions for integration to proceed. Each partner adjusts perceptions about the other and builds common ground on which to stand jointly. Even in the case of less formalized cultural interventions, workshops, where people are brought together to discuss new organizational challenges, are an arena for dialogue centered on sense-making and learning “enabling people to explore conflicting viewpoints but also to change their mental models” (Leroy & Ramanantsoa, 1997, p. 886).

Learning and bonding interventions

Cultural learning interventions activate a cross-cultural dialogue tailored to cooperation. Coupled with learning interventions, two-way communications prevent the rumor mill from feeding anxiety or undermining commitment and promote transparency (Schweiger and DeNisi, 1991). In setting an ongoing dialogue between members of the new combination, learning interventions contribute to building accuracy of attribution (Lakshman, 2011), reducing uncertainty and ambiguity. Sharing the new roadmap through two-way communications alleviates initial tensions (Reus & Lamont, 2008) and clarifies expectations. Cultural learning interventions also achieve connection. Connection (Rottig, 2007), the means by which social integration takes place, establishes structural and relational social ties and networks between the organizations involved. Structural ties refer to the official reporting channels of the new organizational design: appointing integration teams, defining accountability, roles and structures needed to incorporate the two cultural systems in ways that promote cooperation and transfer should be implemented early (Hunt, 1988). Successful M&A appoint integration teams who report to a steering committee made of top management executives and are sponsored by them to lead integration. They start collaborating immediately after the deal is done or in the best of cases in the due diligence phase where they can plan for synergies. The due diligence phase may include a formal cultural audit in which cultural profiles of organizations are sketched and cultural assessment of national and organizational cultures achieved: uncovering new working values and challenging old ones are the processes which are likely to synergize integration when they are initiated before the

deal is closed (Horwitz, 2002) Relational ties refer to the organization’s informal communication channels such as interdepartmental committees, short-term visits and personnel rotation which are set up in the course of integration. Also referred to as social controls (Larsson and Lubatkin, 2001), they incorporate socializing activities such as cross visits and other such socialization rituals necessary to build a new identity. They may be sponsored by integration teams whose social presence is identified as a positive M&A intervention reducing the sense of disconnectedness of employees (Brannen & Peterson, 2009). They may also set up as “communities of practice” (Brown & Duguid, 1995) or “communities of interactions” (Nonaka, 1994) working and learning together to invent creative solutions to common organizational problems. Such relational ties serve the “building of a connective tissue between the organizations that keeps growing” (Ashkenas & Francis, 2000) and consolidates trust-building. Early employee involvement is gained through ‘cultural encounters’ that enable organizational members to rub shoulders with one another. We argue that cross-cultural learning is a catalyst to cooperation: it complies with both task and human integration requirements in setting the foundations for the two interdependent and complementary subprocesses of integration to proceed (Birskinshaw et al, 2000). For knowledge or capabilities or skills residing in one organization to be transferred to the other organization (Bresman et al., 1999), cultural learning interventions are instrumental. We therefore picture the cross-border M&A integration process as one that hinges upon synergistic learning to achieve resource sharing and knowledge transfer through mutual understanding and shared meanings (figure 3).

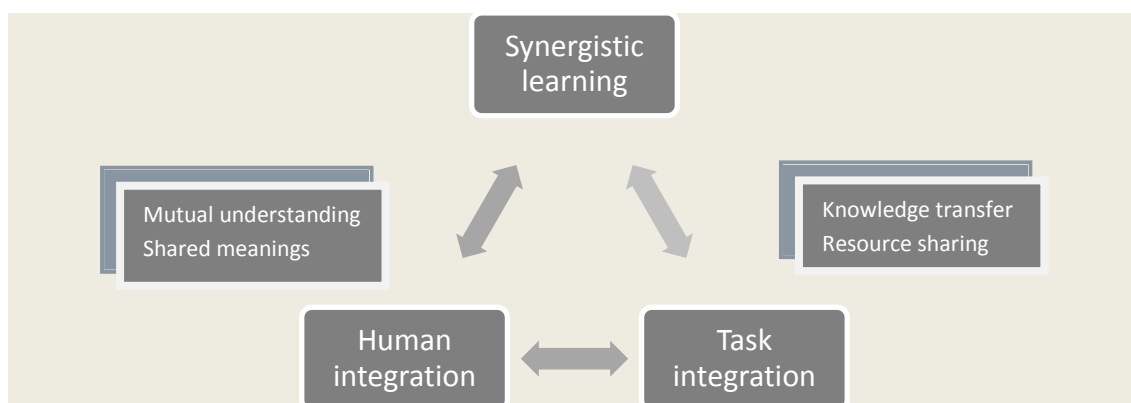


Figure 2: the catalyst role of synergistic learning

To suit integration objectives, cross-cultural learning interventions may be extended further down the line to those organization members that will sponsor integration and whose role is instrumental in implementing knowledge transfer and resource sharing (Teerikangas et al, 2011). Key players need to understand their partners' frames of reference and assumptions in order to share this understanding with all the cooperating parties. This organizational learning perspective is thus not restricted to top management teams but extends to all organizational members that contribute to building company's performance.

Effective management of the post-merger integration process rests upon learning and bonding mechanisms (Nonaka & Takeuchi, 1995): organizations who manage the tensions between the negative and the positive implications of culture focus on the enriching effects of culture (Blanchot, 2008) to derive mutual benefits from acculturation. Learning and bonding mechanisms enable organizations to leverage cultural differences and reap the benefits of cultural dynamics. Individuals that understand one another are more likely to co-create a work culture (Middleton-Kelly, 2006) guided by shared goals. Cultural distance is no longer an issue for 'learning and connected' organizational members. We therefore contend that resolving conflicts and establishing cooperation for knowledge transfer to take place are the dynamic processes and integration capabilities through which acculturation comes about and in which synergistic learning plays a fundamental role.

Removing barriers to understanding undermines cultural confrontation and brings about cooperation; effective cross-cultural dynamics (Larsson & Lubatkin, 2001; Morosini, 2005) proceeds once a cross-cultural dialogue resulting from shared understandings has been activated which sets a process of building a common culture to achieve sustainable synergies.

Considering the length of the integration process (from 100 days to several years), integration effectiveness is the outcome of an iterative, synergistic learning cycle more likely to comply with external changes or circumstances affecting the process (Figure 3). The process of knowledge creation and transfer is "a never-ending, circular process that is not confined to the organization but includes many interfaces with the environment" (Nonaka, 1994, p.27). That is why when learning is built into organizational structures, processes and procedures, organizations are more likely to resist the strains engendered by sudden, disruptive changes and mould the sustainable, competitive advantage that a culture of becoming engenders.

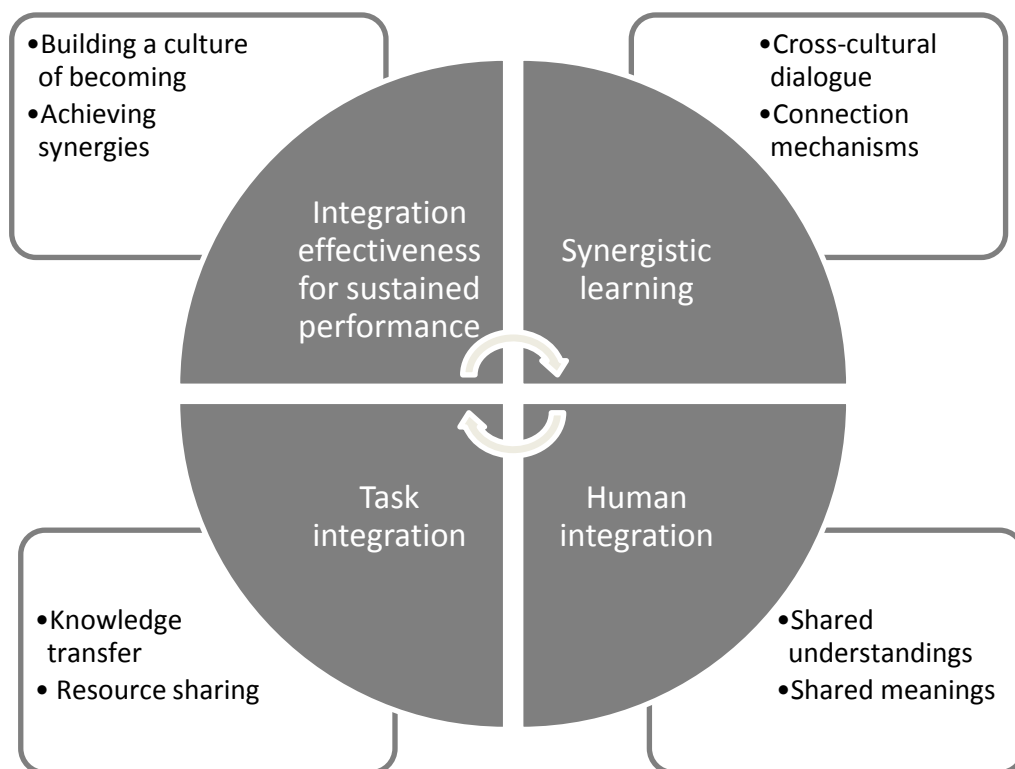


Figure 3 – The building blocks of successful integration

Constraining forces in integration

While bonding and learning mechanisms (Nonaka and Takeuchi, 1995) are co-instrumental in helping integration managers balance the potentially negative outcomes of cultural identity confrontation with the positive outcomes of knowledge transfer, one must not underestimate the importance of macro, meso and micro-level inhibitors.

At the national level, social and political institutions form the context in which managerial practices develop and are applied (Calori et al, 1994). Government regulations, labor management relations, and other factors embedded in the national context may negatively affect the M&A process (Child et al., 2001; Shimizu et al. 2004) and should be given utmost consideration in the pre-and post-acquisition stages. To understand country-specific biases, a thorough analysis of the wider institutional context is necessary: geographic, economic, administrative and linguistic barriers need to be identified (Ghemawat, 2001). This is the purpose of the due diligence process (Horwitz et al, 2002) which should include data on all aspects of the deal, including the possible cultural barriers. Among those, language barriers as they refer to national culture as well as organizational culture obstacles should be given

utmost attention: as previously implied, organizational members may not have the same mother tongue and not speak the same corporate language.

The prevalence of the strategic reasoning behind the deal needs to be underlined. The two organizations combine in order to be stronger economically; the reasons why the deal has been struck must be consistent with the business opportunities and threats and the venture should be steered to achieve the desired goals. After all, the potential of a successful M&A rests on a relevant business case strategy i.e. the ability to map out a successful future for the new organization.

The communication of this positive vision for the newly combined entity is essential: it is the starting-point for symbolically and psychologically setting a cooperation process in motion (Marks & Mirvis, 2011). Symbolically, it means that the combined top management teams are in control and sponsor the new organization; psychologically, it reassures employees on their future. Good intentions for mutual success may be displayed in early communicating an exciting vision for the new entity (Hunt, 1988). Like in any other change management process, communicating the benefits of the new venture may help convey a positive attitude and improve the perception of relative standing of new members (Hambrick & Cannella, 1996) and other stakeholders (Teerikangas et al, 2011).

M&A communication strategy and post M&A implementation should be aligned (Haspelagh & Jemison, 1991). Consistency between vision and mission involves aligning reporting procedures and HR processes to suit the requirements of the new deal. Lack of consistency reinforces causal ambiguity (Lashkman, 2011) and slows down the process through loss of valuable resources. The retention of personnel is one factor significantly smoothing knowledge transfer in cross-border M&A integration (Bresman et al, 1999).

In many such operations, the question of timing is crucial in cross-border M&A integration: some studies point to the first 100 days for smooth integration to proceed. Timely and adequate adjustments in structure, processes and conventions need to be made as early as possible after the deal has been struck, including the implementation of cultural learning interventions. Setting the cultural learning process in motion is time-consuming and should not be disregarded because of sudden changes in market conditions. The sudden occurrence of an economic crisis or the arrival of new competitors on the market may require extra time out of cultural integration mechanisms but should not deprive the combination of such necessary adjustments.

Balance of power is a preliminary condition for sound cultural group dynamics to proceed (Pettigrew, 1998). Contact theory (Williams, 1947 in Pettigrew, 1998) emphasizes paying attention to the balance of power as one of the key levers for effective intergroup collaboration. Anthropologists show that voluntary migrations result in less conflicts than forced occupation (Berry, 1983). Translated in M&A terms, the use of superiority and imposition mechanisms unsurprisingly brings about culture clash and slows down if not blocks acculturation. Balance of power is singled out as one of the prevailing modes of successful acculturation. The context in which the combination takes place (hostile or amicable) deeply influences subsequent integration: the potentially adverse effects of cultural differences may be exacerbated by hostile takeover tactics (Stahl, Chua & Pablo, 2003) and a corresponding dominance mode in management interventions. The assumption of M&A as a 'win-lose' game explains many of the reported failures and points at the paramount importance of dual sponsorship from top management. Balance of power must be numerically or symbolically achieved in cultural learning sessions, communication or connection mechanisms : by sponsoring dual design authorities that have widespread recognition, top management teams achieve balance of power in the upper echelons and make it easier for flows of cooperation to cascade down the line.

Balance of power does not mean lack of critical analysis. The integration process starts with the ability or propensity to recognize cultural differences, a cultural awareness posture which expects differences rather than similarities and conducts systematic analysis of the potential obstacles undermining the likelihood of success. Even if research demonstrates that as opposed to domestic organizations, cross-border dealmakers tend to pay greater attention to obvious cultural differences (Larsson and Risberg, 1998; Evans et al, 2000), the identification of barriers to integration in the cultural due diligence process should not be underestimated (Angwin, 2001). After all, synergies are sought which may not be achieved. The psychic distance paradox (Evans et al, 2000) highlights the fact that on account of proximity in language and geography, integration challenges may be overlooked. Organizational features must also be scrutinized: in cases when rigidities and inertia contained in leadership style and the "way people do things around there" threaten operations, top management and due diligence teams may well decide against the combination: lack of absorptive capacity (Cohen & Levinthal, 1990) is a major obstacle.

For enhanced human and task integration to take place, one should be aware of the huge importance of mindfulness applied to acculturation (Langen, 1989). Some management teams

are culturally blind, displaying an ethnocentric attitude and simply not seeing culture, hence the reductionist approach that is often used in the implementation phase (Morosini, 2005). Top management teams' ability to take cultural differences into account has been identified as a useful driver in the management of M&A integration as opposed to neglect of cultural differences and focus on other stakes (Ashkenas & Francis, 2000). Ignorance of cultural stakes or failure to pay attention to cultural differences leads managers to underestimate the cultural dynamics of the combination, an often reported limitation in M&A. Cultural sensitivity (Bennett, 1986) enables individuals and organizations to deal sympathetically with cultural differences: tolerance, humility, non-judgmentalness and respect are displayed by cultural mediators and boundary-spanners whose task is to monitor the development of shared meanings (Chevrier, 2003). Individuals who are culturally sensitive are more likely to favorably handle diversity (Bennett, 1986). Cultural agility or proficiency enables integration managers to navigate in and out of cultural systems and makes it easier for them to implement learning and bonding mechanisms that set cultural dynamics in motion. In our proposal, combining two knowledge systems requires an access to an understanding of the implicit cultures to be combined. Lack of cultural agility may hamper the use of integration interventions.

The main limitations of an organizational learning approach to cross-border M&A reside in the previous hindering factors pointing at the capabilities required to carry out effective integration as well as the organizational and environmental pitfalls.

The conceptual nature of this paper is also a weakness: more empirical work is needed to challenge the applicability of synergistic learning and better understand the ways in which organizations apprehend and achieve double-layer acculturation. Micro-level studies based on actors' input and implementation should be likely to advance understanding of such a complex, dynamic phenomenon as cross-border M&A integration.

Conclusion

Research has suggested that the results of more sophisticated moderator analyses may reveal that it is not cultural differences per se that create problems in M&As but rather the way cultural boundaries are drawn and organizational integration is managed (Stahl & Voigt, 2008). This paper has investigated the positive and negative implications of cultural

differences on cross-border M&A integration and developed a functionalist approach which hinges on synergistic cultural learning interventions to set cross-cultural dynamics in motion for performance. As summarized in Ghoshal (1987: p 432), “the mere existence of diversity does not enhance learning. To exploit this potential, the organization must consider learning as an explicit objective and must create mechanisms and systems for such learning to take place”. In this perspective, cross-cultural learning interventions and knowledge transfer mechanisms facilitate the development of positive attitudes towards the new organization and the building of a new culture (Morosini, 2005) in organizing the sharing of resources across the two organizations (Reus & Lamont, 2008). Explicit and tacit knowledge are exchanged in the early stages of integration to reap the synergistic benefits of the combination. Integration teams monitor the integration process, establish communications early, build a connective tissue and set up organizational capability in aligning systems with strategy.

Once mutual understanding has been achieved for cooperation to take place, shared experience may be reengineered through the creation of new meanings. Ideally a hybrid culture of ‘becoming’ begins to take hold which may later develop into a sustainable competitive advantage for the newly formed organization. Transfer of knowledge that eases resource deployment may foster the development of new capabilities.

Setting cross-cultural dynamics in motion is the task of integration managers (Teerikangas & Very, 2011), boundary spanners (Stahl & Voigt, 2008) and cultural mediators (Chevrier, 2008) who are able to navigate in and out of cultural systems and are aware of the potential obstacles likely to slow down cross-border M&A integration. They have a deep knowledge of the capabilities and functional limitations of the merging entities, as well as of their core values and processes. Their role consists in steering cultural dynamics for performance and monitoring careful execution of the process (Morosini, 2005; Teerikangas et al, 2011).

Building bridges between cultural systems in cross-border M&A involves setting up an environment where cross-cultural learning and knowledge sharing synergize collaboration, counterbalancing the effects of cultural confrontation and latent conflict (Blanchot, 2008).

Leveraging cross-cultural differences for performance is a major challenge for contemporary organizations: increased openness to cultural diversity and agility are needed in management, in teams and work environments as embracing and endorsing cultural diversity may well shape up the next shift in competitive advantage.

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