LEVERAGING CULTURAL DIFFERENCES FOR M&A PERFORMANCE: A CROSS-CULTURAL MANAGEMENT APPROACH

The purpose of this communication is to offer a management framework for effective integration of cross-border M&A. It is argued that the cultural distance paradigm which has dominated M&A literature for the past three decades is overdue. The procedure that consists in comparing or measuring cultural differences between organizations (King et al, 2004; Stahl & Voigt, 2004) has not been successful in resolving the cultural enigma and produced mixed findings (Buono & Bowditch, 1989; Cartwright & Cooper, 1993; Chatterjee et al, 1992; Datta, 1991; Morosini et al, 1998; Weber et al, 1996). The failure rate of cross-border M&A is still high (Bain, 2009; BCG, 2010; PWC, 2012) and culture is often blamed for hampering performance (Zollo & Meier, 2008).

Two major drawbacks in capturing the role of culture in cross-border M&A are identified which relate to the culture construct. Culture has been considered as a static whole whose input into a combination process produces expected outcomes (Very & Teerikangas, 2006). The two layers of culture, national and organizational, have made it difficult to interpret and generalize research findings (Stahl & Voigt, 2008). The recommended approach therefore investigates the dynamics of culture through management intervention. Investigating management intervention involves considering culture as an asset or a liability depending on the way it is managed (Stahl & Voigt, 2008). Management interventions towards culture are identified and positioned on a continuum ranging from neglect to attention. Drawing from the psychology (Bennett, 1986) and the international management literature (Cox, 1993; Adler, 2002; Chevrier, 2003), the subsequent development stresses the need for endorsing cultural differences through a proactive, formalized approach to M&A integration.

The integration process (Jemison & Sitkin, 1986; Haspelagh & Jemison, 1991) is a complex, interactive process combining task and human integration (Birkinshaw et al, 2000) that reveals the potentially adverse and beneficial effects of cultural differences. Social identity (Tajfel, 1974), information theory and decision-making in diverse work groups (Van Knippenberg, 2007) as well as the resource-based view of the firm (Barney, 1988) provide the theoretical underpinnings of a dual, inherently conflicting process aggravated by the dual nature of culture. Removing barriers to understanding and building trust so as to bring about cooperation are the main drivers behind cross-cultural integration (Larsson & Lubatkin, 2001; Morosini, 2005). They involve creating and implementing mechanisms to alleviate organizational (or task) and sociocultural (or human) tensions and generate synergies (Schweiger & Very, 2003). They therefore rely on a formalized cross-cultural management approach which proceeds from a consistent, aligned, vision-driven integration execution plan. The agents of integration are cross-culturally agile managers (Caligiuri, 2008) able to transform the potential threats of cultural differences into sustainable benefits for the new organization.

**Key words**: cross-cultural management – integration process – performance – cross-border M&A- cultural differences
INTRODUCTION
For the past thirty years, cross-border mergers and acquisitions have become a common form of business organization and corporate development (Stahl, Mendenhall, Pablo, & Javidan, 2005). Achieving economies of scale, reaching new markets, diversifying profitability sources have prompted small and large organizations to go global. Cross-border M&A have been studied by academics (Chatterjee, 1986; King et al, 2004; Stahl & Voigt, 2008; Zollo & Meier, 2008) and practitioners alike (Bain, 2010; BCG, 2010; Mc Kinsey, 2012), leading to abundant research aimed at understanding the reasons for and the outcomes of such business ventures. Failure having been reported on numerous instances, the stress of this literature has been laid on the performance of M&A, thus raising awareness of the many obstacles encountered in the attainment of strategic objectives (Stahl & Voigt, 2005) and, among them, of the persistent influence of culture.

In attempting to predict performance, M&A research has grown along discipline-based lines. The financial and strategic tracks have emphasized the importance of financial and strategic considerations as to whether M&A create wealth (Agrawal & Jaffe, 2000) or whether strategic fit matters (Seth, 1990). When organizational criteria have come under scrutiny, interest has focused on human, social and cultural features of M&A whose understanding has been enhanced by scholars in the psychology, organizational behavior and human resource management disciplines (Buono & Bowditch, 1989; Cartwright and Cooper, 1992; Mirvis and Marks, 1992; Sales & Mirvis, 1984). A broader view has subsequently emerged, referred to as the process perspective, converging on the choice of integration strategy with the provision of contingency frameworks for post-acquisition integration (Haspelagh & Jemison, 1991; Cartwright & Cooper, 1993) or on an improved understanding of integration approaches (Child, Pitkethly & Faulkner, 2001; Schweiger & Very, 2003).

After two years of decline, the M&A market is recovering: the number of deals rose in 2010 and a growth in emerging markets in 2011 shows a promising trend (Mc Kinsey, 2012). It is very likely that the rising number of cross-border combinations will revive cultural studies.

Research in this field is fragmented and has not progressed significantly (Cartwright & Schoenberg, 2006). Scholars studying the complexity and multifaceted nature of culture have offered a variety of approaches and perspectives in organization and management studies, which have produced ambiguous if not contradictory results. The cultural distance paradigm has dominated research for the past three decades, demonstrating that cultural differences may be an asset or a liability for the organization depending on the similarity between cultures. However, the percentage of failure of cross-border M&A is still high and the full understanding of success antecedents has not been advanced. Two meta-analyses (King et al, 2004; Stahl & Voigt, 2008) have revealed that factors accounting for M&A success or failure remain largely unexplained, orientating academia towards processes affecting integration and most notably, management interventions.

In line with the previous results and recommendations, we investigate the management of cultural differences away from the cultural distance paradigm. In better apprehending the management process, we intend to uncover some of the factors which explain variance in
Whether managers address cultural differences when they tackle the integration process of cross-border M&A is the starting-point of our study. Drawing from the literature, we proceed to delineating postures towards culture, from neglect to attention, and build a framework of cultural orientations. The duality of the process, between task and social integration, is investigated through this framework and cultural integration stakes are identified. A formalized cross-cultural management approach leveraging cultural differences is proposed which outlines key mechanisms for bridging the cultural divide.

1. CULTURAL DIFFERENCES IN INTERNATIONAL COMBINATIONS: A MANAGEMENT PERSPECTIVE

1.1. THE CULTURAL DISTANCE PARADIGM

In trying to identify the challenges raised by cultural differences in M&A integration, academia has adhered to the cultural distance paradigm which has dominated international literature for the past decades. Few constructs have been so popular in international management that the cultural distance construct. The cultural distance construct gained acceptance through the introduction of the composite index of Kogut & Singh (1988), an aggregate measure of Hofstede’s framework (1980) of cultural dimensions, making it possible to measure and quantify the intangible and complex concept of culture. The “cultural distance hypothesis” states that the difficulties, costs and risks associated with cross-cultural contact increase with growing cultural differences between two individuals, groups or organizations. However, research investigating the relationship between culture and performance through cultural distance has produced mixed findings. Some scholars have found that organizational (Buono and Bowditch, 1989; Chatterjee et al., 1992; Datta, 1991) and national (Olie, 1994; Weber et al., 1996) cultural differences weaken integration effectiveness. Others have argued that cultural differences can be a source of value creation in both domestic and international acquisitions (Larsson and Risberg, 1998; Morosini et al., 1998). Cultural distance has been translated into variations of culture fit, culture compatibility and management similarity constructs: the differentiated results derived from these studies are difficult to interpret and hardly foster any deep understanding of cultural factors. The following table summarizes the dual relationship between culture and synergy potential (table 1).
<table>
<thead>
<tr>
<th>Culture constructs</th>
<th>Authors</th>
<th>Positive findings</th>
<th>Negative findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture fit</td>
<td>Mirvis &amp; Marks (1992) Buono &amp; Bowditch (1989)</td>
<td>Strategic and organizational fit both explain M&amp;A performance</td>
<td>Differences in organizational cultures lead to conflicts in M&amp;A Misfits in organizational culture are detrimental to M&amp;A performance</td>
</tr>
<tr>
<td></td>
<td>Chatterjee et al (1992)</td>
<td>National and corporate culture fit positively influences integration in cross-border M&amp;A</td>
<td></td>
</tr>
<tr>
<td>Culture distance</td>
<td>Morosini et al (1998)</td>
<td>A greater distance in national cultures will positively influence M&amp;A performance</td>
<td>Differences in national, organizational and professional cultures result in cultural risk</td>
</tr>
<tr>
<td></td>
<td>David and Singh (1994)</td>
<td>Cross-border deals are more successful in achieving synergy realization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Larsson &amp; Risberg (1998)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture compatibility</td>
<td>Cartwright and Cooper (1993, 1996)</td>
<td>Organizational culture compatibility brings about M&amp;A success</td>
<td></td>
</tr>
<tr>
<td>Management style similarity</td>
<td>Datta (1991)</td>
<td>Management style similarity provides synergy potential</td>
<td>Differences in top management styles negatively influence the performance of domestic M&amp;A</td>
</tr>
<tr>
<td></td>
<td>Larsson &amp; Finkelstein (1999)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: the culture-performance relationship in M&A (adapted from Very & Teerikangas, 2006)

Beyond its inconclusive findings, this perspective has suffered from two main drawbacks: first, it has assumed that cultural distance has a direct causal effect on M&A performance. In other words, the degree of similarity or compatibility or fit between cultures has been expected to have a direct effect on subsequent integration (Cartwright & Cooper, 1996; David & Singh, 1994; Morosini et al, 1998; Weber et al., 1996). The acculturation model (Nahavandi & Malekzadeh, 1988) has similarly underlined that the degree of congruence between acquiring and acquired firms’ preferred modes of acculturation determines the extent of acculturative stress and conflict. In this context, researchers have been overly optimistic in
assuming that post-merger outcomes can be predicted by a composite measure of national cultural differences and in isolation from the wider integration process (Stahl & Mendenhall, 2006), thus handling culture as another management variable (Shenkar et al, 2008). To correct these assumptions, research has since shown that the impact of cultural differences on M&A performance may be mediated and moderated by integration process variables (Datta & Grant, 1990; Morosini & Singh, 1998; Slangen, 2006; Weber, 1996) such as the degree of integration or integration capabilities. 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. Integration execution capabilities (Reus & Lamont, 2009) enhance the integration process and counterbalance the negative effects of cultural differences.

Second, the implicit assumption that "distance" means "incongruence" is questionable. M&A research provides evidence that congruence can be reached by achieving "complementarity," and not necessarily “similarity” (Weber & al, 1996). Consequently, the assumption behind the cultural distance paradigm has negatively affected the examination of the culture construct and stressed the tensions and conflicts derived from lack of similarity, overlooking its synergistic spinoffs: culture has been seen as a static whole whose input into a combination process produces anticipated outcomes. In view of the previously mentioned inconsistencies, we suggest investigating cultural interaction rather than void (Morosini, 2005) between entities which means replacing distance with contact. In line with Shenkar et al (2008), we suggest substituting cultural “friction” to cultural distance, thus investigating interaction between cultures. Much is to be learnt from the interface between interacting cultures. With an interaction lens, culture is viewed as a construction mechanism: culture is created and recreated by actors embedded in different national and organizational settings (Weber et al. 1996), a perspective which looks promising if handled constructively. We consequently switch from a positivist, functionalist approach to culture to an approach whereby cultural meanings and interpretations may be enacted and reenacted through negotiation and renegotiation (Shenkar et al, 2008). This move is of paramount importance to advance understanding: if cultural differences are apprehended in the light of the cultural distance paradigm, difference is detrimental. If apprehended in the light of cultural interaction, a new field of investigation opens where culture may be viewed as an opportunity for the organization. Shenkar et al (2008) summarize the need for a new paradigm: "while the introduction of the cultural distance metaphor has popularized culture as a research variable, it has forced the phenomenon into a methodological and theoretical straightjacket that has been counterproductive for understanding culture in international management”. Considering that cultural distance has so far negatively affected the examination process in assimilating difference to discordance, we set out to reverse this paradigm in investigating cultural interaction in international combinations.

1.2. ADDRESSING CULTURAL DIFFERENCES: A DYNAMIC PERSPECTIVE
A recent BCG report (2010) described the whole M&A management process as one of the critical factors of success. A study conducted by Bain (2009) identified culture as the most important challenge for M&A managers. The previous development has shown that the cultural distance paradigm has not been successful in explaining the influence of culture on
performance, which has prompted us to address cultural dynamics from a management perspective. As the management of cultural differences in international M&A has not been the subject of extensive research (Rottig, 2006), we again draw from the international management literature to identify managers’ cultural strategies. In the practitioners’ literature, two contrasting orientations have been put forward: top management teams’ awareness of cultural differences or the ability to take cultural differences into account have been identified as useful drivers in the management of M&A integration as opposed to neglect of cultural differences and focus on other stakes (Ashkenas & Francis, 2000). Famous examples of cultural blindness abound, in which failure to take culture into consideration has translated into irreversible damage for all parties. The merger between Daimler & Chrysler is probably the best academically advertised example of such cultural blindness (Badrtalei & Bates, 2007) and Volvo and Renault’s failed marriage stands as a good illustration of the psychic distance paradox (Evans et al., 2000), derived from the cultural distance perspective. Ignorance of cultural stakes or failure to pay attention to cultural differences on account of closeness between national cultures has led managers to underestimatethe cultural dynamics of the combination, an often reported limitation in M&A. Conversely, EADS, a European consortium between French, Spanish and German corporations, typifies meticulous consideration of cultural features and successful integration (Barmeyer & Mayrhofer, 2007) after taking past errors and insufficiencies into account. Similarly, the merger between Adidas & Reebok has been quoted as an example of smooth cultural integration (BCG, 2010), that is to say an inclusion of cultural differences into the process (Cox, 1993; Adler, 2002).

This dichotomy is supported by the US diversity management literature which contends that ignoring or mishandling diversity may become a detractor for performance whereas managing diversity may prove an asset (Cox, 1993). Leveraging cultural diversity brings about expanded meanings, multiple perspectives and multiple interpretations, thus generating greater openness to new ideas, increased flexibility and creativity in problem-solving (Adler, 2002). On the other hand, ignoring cultural diversity leads to difficulties converging meanings, decisions or actions, bringing about ambiguity, complexity and confusion which trigger intergroup conflict, miscommunication and misunderstandings (Adler, 2002). In other words, cultural diversity may not be detrimental to organizational performance as difference may not necessarily mean discordance; hence a general trend towards invalidating the thesis that difference is harmful (Adler, 2002). We draw from the existing analyses of cultural orientations (Adler, 2002; Cox, 1993) to propose a foundation for our investigation. Taking into account these examples and the other various cases investigated in the M&A field, we posit a continuum ranging from neglect of cultural differences to attention to cultural differences (figure 1): integration managers or top management teams will either acknowledge cultural diversity (attention) as they plan or tackle the integration process or ignore it (neglect).

![Figure 1 – A continuum for managing cultural differences](image-url)
The reasons why managers do not take culture into account have different roots (Gancel et al., 2002). Lack of visibility of culture very often results in neglect: the lack of consideration of ‘soft’ issues in M&A research has brought about inconsistencies that organizational behavior and process research would subsequently address, accusing the financial and strategic streams to overlook cultural factors. Management shows immediate, keen interest in the financial and strategic criteria of M&A performance which are more visible and thus more easily quantified whereas cultural integration takes time and requires qualitative assessment of combinational factors. Lack of M&A experience may be suggested as another explanation: a first attempt at combining cross-border entities may prevent management from realizing the importance of cultural and human factors as time presses for organizational and operational moves. Lack of exposure to intercultural situations is a major stumbling-block: previous cross-cultural encounters have enhanced management’s understanding of cultural features, both differences and similarities, providing them with additional skills which may be an asset in future situations (Bennett, 1986). Lack of training may also be put forward as a possible antecedent of cultural neglect. Top management teams are seldom trained to deal with cultural differences (Johnson et al, 2006). Lack of skills, lack of a toolbox and lack of reflexive thinking are important weaknesses to underline.

Many organizations suffer from “cultural invisibility”, Adler (2002): their managers do not see culture and do not believe that culture may affect the day-to-day operations of organizations. And yet managing cultural diversity is said to be crucial to the accomplishment of organizational goals and is placed at the core of leadership (Cox, 1993). The parochial organization ignores culture on the ground that the impact of cultural diversity is null and void (Adler, 2002). Similarly, the monolithic organization ignores or actively discourages diversity (Cox, 1993). The ethnocentric organization minimizes cultural considerations on the ground diversity is a threat (Adler, 2002) while the plural organization ignores or tolerates diversity (Cox, 1993). The synergistic organization manages culture in order to transcend cultural differences (Adler, 2002) in the same way as the multicultural organization values diversity (Cox, 1991). The culturally synergistic organization (Adler, 2002) is described as the most refined model of cultural integration: it is largely cognizant of cultural differences and utilizes them to create synergies. Leveraging cultural diversity by developing strategies for acknowledging the influence of culture is presented by scholars as the best option.

The synergistic organization (Adler, 2002) or multicultural organization (Cox, 1993) can be assimilated to the geocentric form of organization (Heenan & Perlmutter, 1967) in which culture is viewed as an opportunity rather than a threat and which builds on cultural differences to leverage them (in Schneider & Barsoux, 2002). These strategies are described as embedded in the nature of relationships between headquarters and subsidiaries in Heenan & Perlmutter’s original work (1967). They vary according to different stages of the internationalization process in much the same way as an individual advances his understanding of culture through the different stages of the intercultural awareness-building process. This process is described in the Development Model of Intercultural Sensitivity (Bennett, 1986), a model which draws from psychological theories of culture contact. Intercultural sensitivity is a process of awareness-building, which brings about cross-cultural
competence, defined as “the ability to communicate effectively in cross-cultural situations and to relate appropriately in a variety of cultural contexts” (Bennett, 1986). In trying to understand how cross-cultural competence is developed, Bennett (1986), whose research lies in observation and grounded theory, posits a framework for conceptualizing developmental stages of intercultural competence. As one’s experience of cultural encounters becomes more sophisticated, one’s competence increases and passes through various stages. Organizational implications are presented in the model:

“Denial: one’s culture is experienced as the only real one”. Cultural differences are ignored, consideration of other cultures is invalid and perception of cultural variations is inexistent. An organization characterized by “denial” is basically ignorant of cultural issues. It only provides basic language training if it has to address cross-cultural contact.

“Defense: one’s culture is experienced as the only good one”. Cultural difference is denigrated, consideration of other cultures is prejudiced and perception of cultural variations is negative. In the organization, the defense worldview is polarized into us versus them differentiation, the prevailing attitude is one of threat. Cultural difference is seen as an obstacle to be avoided or by-passed.

“Minimization: one’s culture is experienced as universal”. Cultural difference is negated, other cultures are similar to one’s own and perception of cultural variations is biased. The organization claims to be tolerant: however, utmost emphasis is placed on corporate culture which creates strong pressure for culture conformity and standardization.

“Acceptance: other cultures are included in experience as equally complex” but different constructions of reality. Cultural difference is acknowledged, other cultures legitimized and perception of cultural variations is passive. In the organization, active efforts are made to recruit and retain a diverse workforce. Managers are encouraged to recognize cultural differences but are not trained.

“Adaptation: ability to shift perspective in and out of another cultural worldview is possible” and one’s experience potentially includes the experience of another culture. Cultural difference has been experienced and perception of cultural variations is trained. In the organization, educational training for executives is encouraged: domestic and international cultural differences are used as a resource in newly formed multicultural teams.

“Integration: one’s experience of self is expanded to include movement in and out of cultural worldviews”. Cultural difference is managed and perception of cultural variations is inbuilt. The organization is a truly multicultural and global organization. Every policy, issue and action is examined in its cultural context. Little emphasis is placed on national identity although roots and cultural influences are recognized.

Denial, defense and minimization are described as ethnocentric orientations where one’s culture is experienced as central to reality whereas acceptance, adaptation and integration are ethnorelative orientations where one’s culture is experienced in relation to other cultures. In
our continuum, ethnocentric orientations are illustrations of the neglect dimension whereas ethnorelative orientations are illustrations of the attention pole.

The following table integrates the different frameworks and models (table 2). It relates types of organizations to perceptions of cultural diversity and outlines cultural strategies for managing cultural differences. Adaptation and integration are presented as the ultimate forms of attention to culture as they exemplify the inclusion of cultural differences in management.

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Perception of cultural diversity</th>
<th>Cultural orientation</th>
<th>Cultural strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parochial Monolithic</td>
<td>No impact</td>
<td>Denial: cultural variation is ignored</td>
<td>Ignore differences</td>
</tr>
<tr>
<td>Ethnocentric Pluralistic</td>
<td>Negative impact</td>
<td>Defense and minimization: cultural variation is feared</td>
<td>Minimize differences</td>
</tr>
<tr>
<td>Pluralistic</td>
<td>Neutral impact</td>
<td>Acceptance: cultural variation is acknowledged</td>
<td>Acknowledge differences</td>
</tr>
<tr>
<td>Synergistic Multicultural</td>
<td>Positive impact</td>
<td>Adaptation, integration: cultural variation is endorsed</td>
<td>Manage differences</td>
</tr>
</tbody>
</table>

Table 2 – Integrative model of cultural orientations (adapted from Adler, 2002; Bennett, 1986; Cox, 1991)

As table 2 shows, inclusion of cultural differences may take two forms. Acknowledging cultural diversity may very well be a passive process: organizations often pay lip service to cultural diversity in exhibiting tolerance and open mind. In support of this orientation, Chevrier (2003) identifies three variations of workaround orientations in her study of multicultural teams. All three variations are based on acknowledgement of cultural differences. The first orientation consists in drawing from individual tolerance and self-control: although cultural differences are legitimate, they are ignored in order to ease cooperation and facilitate interaction. The second type of orientation is made of trial and error processes coupled with personal relationships: parties engage in exploration activities for mutual understanding and teambuilding. The third orientation consists of setting up transnational cultures on the basis of other cultural norms such as those provided by professional or corporate cultures. In this context, by-passing national culture differences means using other cultural values and norms to cement cooperation and enhance achievements. These orientations suggest that the gap between “knowing” how to deal with cultural differences and “doing”, that is to say behaving accordingly, is not bridged (Johnson et al, 2006).
On the opposite, synergistic organizations endorse cultural diversity and formalize policies and procedures to address cultural differences. Institutionalization of practices, processes and procedures to address cultural differences is the distinctive process that tells a pluralistic from a synergistic organization. We thus define two conditions to the adoption of a cross-cultural management approach: attention to cultural differences and formalization of attention, as an expression of endorsement of cultural diversity. Endorsement of cultural diversity rests on cross-cultural competence, defined as an ability to shift perspective and behavior in and out of cultural worldviews (Bennett, 1986): “understanding knowledge…and developing communication ties … may require hiring acquisition managers who have considerable cultural intelligence or invest in cross-cultural training for organization members”(Early & Mosakowski, 2004). In line with the previous development, we formulate the following proposition.

Proposition 1: endorsement of cultural diversity implies formally addressing cultural differences. An organization endorsing cultural diversity knowledgeably uses cultural differences to create synergies.

2. ADDRESSING CULTURAL DIFFERENCES IN M&A INTEGRATION: FROM DOUBLE-EDGED SWORD TO MIXED BLESSING

Inserting a cultural orientation framework into the multidimensional, complex reality of M&A integration requires activating the process perspective (Jemison and Sitkin, 1986; Haspelagh and Jemison, 1991; Hunt, 1988). The process stream emphasizes 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 and Schoenberg, 2006). The process perspective on M&A classifies the management of acquisitions along the needs for strategic interdependence and organizational autonomy (Haspelagh and Jemison, 1991). As the degree of integration increases, the complexity of the management process increases substantially (Jemison and Sitkin, 1986) and questions the value creation potential of the combination. The complexity of the management process also increases substantially when cultural differences have to be addressed. The process view consequently emphasizes key integration management capabilities (Jemison and Sitkin, 1986; Haspelagh and Jemison, 1991; Zollo & Singh, 2004) such as knowledge transfer, communication and key employee retention which are likely to be exacerbated by cultural differences. In literature, the magnitude of handling two sub-processes has been outlined (Birkinshaw, Bresman & Hakanson, 2000; Stahl & Voigt, 2008):

- The sociocultural process referred to as human integration reflected in the extent to which employees express satisfaction towards the new combination, which involves considering human and social factors and the role social and cultural categorization plays in combinations
- The organizational process referred to as task integration reflected in the extent to which operational synergies are realized, which involves considering the organization of the new entity around structure, systems and procedures.
Research demonstrates that overall effective integration is an interactive process, requiring both sociocultural and task integration efforts: it has been shown that poor socio-cultural integration often blocks successful task integration and task integration cannot be realized if success with sociocultural integration has not been achieved (Schweiger, 2003). Mergers and acquisitions are major organizational changes which place great strains on integration capabilities. Authors have emphasized both the impeding and enriching effects of cultural differences on integration capabilities (Morosini et al, 1998; Reus & Lamont, 2008; Vaara et al, 2010).

2.1. THE DOUBLE-EDGED SWORD OF CULTURAL DIFFERENCES

The double-edged sword of cultural distance is epitomized in integration. Task and sociocultural integration collide in an often erratic and mismanaged process as integration execution is fraught with social conflict (human integration) thus counteracting the benefits of knowledge transfer (task integration). Consequently, cultural differences have been reported to affect the extent to which synergies are realized in two separate and sometimes opposing ways (Reus & Lamont, 2009; Vaara et al, 2010).

Social Identity Theory (Tajfel, 1974) suggests that cultural differences have a potentially adverse effect on a variety of sociocultural outcomes such as the creation of positive attitudes, the emergence of a sense of shared identity and the development of trust (Morosini, 2005). Social Identity Theory (Tajfel, 1974) has been applied to the study of conflicts in M&A: at the core of this application is the observation that people define themselves according to their group membership (the in-group) and in relation to other groups (salient out-groups). Social Identity Theory (Tajfel, 1974) explains much of the cultural strains experienced by organizations through social identification and categorization. A social group defines itself in ways that differentiate it from another social group. In a combination process, social entities unconsciously identify themselves in opposition to others, thereby illustrating the ‘us versus them’ attitude which negatively impacts relationships, involves stereotyping, defense mechanisms and power struggles. Social Identity Theory highlights the constructed nature of cultural perceptions in a merger situation: organization members will tend to exaggerate the differences between cultural groups. In-group bias is likely to be greatest under conditions of threat and when the out-group is perceived to be very different from the in-group (Stahl & Mendenhall, 2006). In managing culture, practitioners need to be aware of the likelihood of distrust and conflict (Cartwright & Cooper, 1992): culture may indeed be used as an alibi for conflict, a pretext for isolation or a shelter against intrusion.

Conversely, the information theory (Van Knippenberg & Shippers, 2007), organizational learning perspective (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001) and the resource-based view of the firm (Barney, 1988) suggest that cultural differences can be a source of value creation by providing access to valuable capabilities, resources and learning opportunities inherent to a different cultural and institutional environment. The information theory suggests that diverse groups will benefit from enriched information sources and outlooks, combined resources and synergistic outcomes: the information-processing perspective highlights the tendency for culturally heterogeneous teams to generate superior performance thanks to a larger pool of skills, knowledge, viewpoints that are shared for
decision-making purposes (van Knippenberg and Schippers, 2007) and from which the organization can learn. Researchers advocating organizational learning theories have emphasized the potential benefits of cultural differences on M&A: Barkema & Vermeulen (1998), Vermeulen & Barkema (2001) suggests that differences in cultures and systems may help acquiring firms break rigidities and decrease inertia, develop richer knowledge structures and foster innovation and learning.

Drawing on the resource-based view of the firm, Morosini et al. (1998) argue that a cross-border acquisition can be viewed as “a mechanism for the acquiring firm (and target) to access different routines and repertoires that are missing in its own national culture and which have the potential to enhance the combined firm’s competitive advantage and performance over time”. In this perspective, cultural differences can be a source of value creation and learning on the assumption that differences rather than similarities between merging organizations create opportunities for synergies (Harrison et al., 1991). Exploration of new resources and capabilities lead to new ways of doing business (Barney, 1988). In managing culture, practitioners may want to focus on potential gains: creativity bred from difference, novelty conducive to curiosity, and satisfaction from mutual enrichment. We infer from the previous development that endorsement of cultural differences is a requirement for a manager-created balance between the potential threats and benefits of cultural differences and summarize the benefits of endorsing differences in the following proposition illustrated by table 3.

Proposition 2: endorsement of cultural differences is likely to turn the potentially adverse effects of culture into benefits for the newly formed organization.

<table>
<thead>
<tr>
<th>Theoretical underpinnings of M&amp;A cultural integration</th>
<th>Neglect of cultural differences threatens integration effectiveness</th>
<th>Attention to cultural differences enhances integration effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social identity theory</td>
<td>Social conflict</td>
<td>Social cohesion</td>
</tr>
<tr>
<td></td>
<td>Employee resistance</td>
<td>Employee commitment</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>Distrust</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td>Dual identity</td>
<td>Common identity</td>
</tr>
<tr>
<td>Information theory</td>
<td>Restricted pool of knowledge</td>
<td>Larger pool of knowledge</td>
</tr>
<tr>
<td>Organizational learning</td>
<td>Knowledge transaction through conformism and inertia</td>
<td>Knowledge transformation through innovation and learning</td>
</tr>
<tr>
<td>Resource-based view</td>
<td>Rigidity, apathy</td>
<td>New resources and capabilities</td>
</tr>
</tbody>
</table>

Table 3 - From double-edged sword to mixed blessing
Turning the potentially adverse effects of culture into benefits for the organization rests on the assumption that difference is no longer harmful; it is a challenge for integration managers who have to manage the dual nature of culture in cross-border combinations.

2.2. THE DUAL NATURE OF CULTURE IN M&A INTEGRATION

In M&A literature, definitions of culture derived from the cultural distance paradigm refer to homogeneous systems delineated by value orientations (Kluckhohn & Strodtbeck, 1961; Hofstede, 1980) whose limitations in cross-border combinations have previously been addressed. Societies and many organizations can more correctly be viewed in terms of multiple, cross-cutting cultural contexts changing through time, rather than as stable, bounded, homogeneous cultures (Cuche, 2004). Considering multiple native views in anthropology, Gregory (1983) suggests defining culture as learned ways of coping with experience: “a system of knowledge that explains the social and physical universe and provides plans and decisions for coping”.

The knowledge-based approach has been used in M&A literature to investigate the combination of two systems of knowledge (Grotenhuis & Weggeman, 2002). Culture has been defined as a system of knowledge and insights, which serve as a basis for interpreting experiences and generating actions (Gregory, 1983). Internal and external interactions give rise to a frame of reference which members of the organization use when making interpretations (Schein, 1985). In the case of M&A, two systems of knowledge are combined: such knowledge resources need to be managed carefully in order to reach the intended synergies (Grotenhuis & Weggeman, 2002).

We proceed from this knowledge-oriented definitional approach to enlighten the dual nature of culture in cross-border M&A integration. For international M&A to be successful, 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, demonstrated and are thus more easily interpreted and transmitted. They refer to the codifiability process outlined in task integration which contributes to understandability, defined as “the extent to which employees from the combining firms can codify and learn the practices and routines underlying the resource advantages” (Reus & Lamont, 2009). They formally address knowledge transfer and resource sharing.

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 human integration will address in achieving 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 that underlie objective knowledge and 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, 1985) 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 which refer to reporting, decision-making, recruiting, training, troubleshooting mechanisms that are used by each entity in their daily operation. A flat organization with loose control procedures may merge with a tall organization with tight control codes. Leading may be different according to group and gender patterns. A collectivist, male-dominated organization may be combined with an individualistic, gender-equal culture. Subjective knowledge makes it possible to explain why these organizations have different cultures: it is “a cognitive dimension based on subjective and experience-based understanding of complex phenomena such as national culture symbols which are difficult to proceduralize and critical to business performance” (Morosini, 2005). Subjective knowledge “combines theoretical and logical thought with intuition in order to convey critical information which is extremely difficult—if not impracticable—to codify, formalize or make predictable within explicit systems”, referred to as gnosis (Morosini, 2005).

Similarly, 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 between combining firms that arise 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). This finding is backed up by evidence from Schweiger & Goulet’s deep cultural interventions (2005). The authors demonstrate that deep-level cultural learning (learning about backstage or subjective culture) enhances dialogue between the combining firms and minimizes the effects of information filtering. This results in a clearer, more favorable picture of each combining partner, thereby increasing the acceptability of each partner’s culture. The authors further argue that surface-level cultural learning (learning about frontstage or objective culture) will 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.

This contrasting duality is confirmed 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: conflict between the merging firm’s 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 action and communication.

3. ACHIEVING INTEGRATION: A CROSS-CULTURAL MANAGEMENT APPROACH
The combination of objective or explicit as well as subjective or implicit knowledge is critical to performance and bridges the gap between knowing and doing. The people possessing a
critical mix of technical knowledge and cross-cultural gnosis are able to carry out complex coordination functions following an M&A.

Fine-tuning between explicit processes of organizational culture and implicit processes embedded in organizational and national culture is not easily achieved; it is a daunting task which involves making sense of national and organizational culture differences and addresses the dynamics of culture, as opposed to the static views aforementioned. 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.” When apprehended in the form of a dynamic system, culture can be addressed more proactively and positively (Morosini, 2005). Shared meanings and shared experience are the fertilizers of cooperation. Explicit knowledge only does not make a merger successful and only deals with the “how”: how to make decisions, to coordinate action, to start a new plan. It ignores the building-blocks of culture and consequently disregards the “why”: why are decisions collective? Why is coordinating action a hierarchical process? Why is starting a new plan a highly controlled activity? In order to balance the potentially negative outcomes of conflict and cultural identity confrontation and the potentially positive outcomes of knowledge transfer, integration managers combine explicit and implicit knowledge. Combining two knowledge systems first requires an access to an understanding of the cultures to be combined: two simultaneous and complementary processes, sharing explicit knowledge while building understanding of implicit knowledge, are essential to integration.

We build on the previous analysis to define a cross-cultural management approach for M&A integration (Morosini, 2005; Weber & Camerer, 2003): cross-cultural management makes sense of the dual nature of culture and combines objective and subjective knowledge through knowledge sharing and understanding in order to facilitate organizational and human integration.

Culture is a powerful tool for identity-building: whereas compatibility and fit concerns result in largely ‘unconscious cloning processes’ that reinforce cultural boundaries, the combination of objective and subjective culture drives the dynamic construction of a new sociocultural identity (Morosini, 2005)

3.1. THE DRIVERS OF CROSS-CULTURAL MANAGEMENT
In creating shared meanings, three essential processes are emphasized:

- Learning brings about understanding: as previously demonstrated, learning creates understanding in two distinct, complementary ways: learning about two organizations’ culture is learning not only how the organizations function (objective knowledge) but why they function the way they do (subjective knowledge). This type of learning is referred as “deep cultural learning” (Schweiger & Goulet, 2005). Deep cultural learning requires that a permanent ‘cross cultural manager’ or cross-cultural management teams, experts in cross cultural knowledge-sharing, be appointed who repeatedly gather cross-cultural teams to continually update experiential knowledge
and follow up on it (Holden, 2001). A process of ‘interactive translation’ has to take place: knowledge has to be translated from implicit to explicit by creating a ‘serviceable language of corporate endeavor’ (Holden, 2001), which is defined as shared meanings of management tasks and processes.

- Bonding through learning together builds trust: it brings about reduced anxiety in getting to know the other and minimized the adverse effects of the “us versus them” perspective. Togetherness is an essential tool in bridging the cultural divide and building a new identity. Learning and bonding (Nonaka & Takeuchi, 1995) are not dissociated and reduce cross-cultural work alienation (Brannen & Peterson, 2008)

- Teaming (Schein & Edmonson, 2012) sustains cooperation: face-to-face teamwork is emphasized as conducive to better efficiency in knowledge integration and to organizational learning. As groups start working together, they invent joint solutions to organizational problems.

We posit that these mechanisms are elaborated, formalized and implemented by top management teams who endorse diversity and participate in the enactment of cultural integration policies.

Knowledge transfer requires constant social interaction, which rests on social cohesion and trust (Bresman et al, 1999; Haspeslagh and Jemison, 1991). As Bresman et al. (1999) noted in their study of knowledge transfer following international acquisitions, ‘individuals will only participate willingly in knowledge exchange once they share a sense of identity or belonging with their colleagues’ which occurs after learning and bonding have been achieved to foster teaming. Teaming is social interaction based on trust fostered by common understandings.

Proposition 3: A cross-cultural management approach which combines objective and subjective knowledge to establish understanding, creates a learning environment where bonding is paramount for building trust and teaming is conducive to organizational learning.

3.2. EFFECTIVE M&A INTEGRATION
The level of operational integration will determine the impact of culture on chosen integration design (Buono & Bowditch, 1989; Datta, 1991; Larsson & Finkelstein, 1999; Schweiger, 2002) from total autonomy to total integration depending on the strategic intent and type of synergies sought, which underlines the prevalence of the business case behind the combination.

M&A that require higher levels of operational integration generally lead to greater organizational changes and more interaction, hence the need for stronger integration capabilities (Zollo & Singh, 2004). High degrees of operational integration in international M&A require a mindful, inclusive approach in achieving sociocultural and organization integration.

Effective sociocultural integration translates into employee satisfaction through developing constructive employee attitudes, building a new identity, establishing trust and ease of communication: an atmosphere of mutual respect involving early consideration for and
commitment to employees’ concerns and aspirations builds positive attitudes towards integration and bring about employee satisfaction:

- Shared identity refers to the extent to which former employees of combining organizations have bridged cultural boundaries and express satisfaction and trust towards combined organization (Vaara et al, 2010)
- Cooperation refers to the extent to which employees show commitment towards the new organization: it encompasses communication and the extent to which communication flows facilitate knowledge transfer and positive attitudes towards the organization (Schweiger & De Nisi, 1991).

Effective task integration translates into operational synergies and shorter time spans: combining operations to achieve operational synergies involves identifying and realizing transfer of capabilities and resource sharing in order to eliminate overlaps:

- Knowledge transfer refers to the extent to which capabilities and resources can be transferred and shared to exploit combining firms’ competitive advantage (Reus & Lamont, 2008)
- Key talent retention refers to the extent to which key personnel is retained for the transfer of critical knowledge-based resources (Reus & Lamont, 2008)

Cultural learning refers to the extent to which cross-cultural learning interventions facilitate acceptance of change, willingness to cooperate and open communication (Holden, 2001; Schweiger & Goulet, 2005).

A cross-cultural management approach takes its roots in cross-cultural learning and makes use of two additional sociocultural and organizational enablers:

- Formalization is defined as the institutionalization of practices or mechanisms for integration (Vlaar et al, 2006). Cross-cultural integration management consists in providing an “enabling infrastructure” (Mitleton-Kelly, 2006) based on formalized socio-cultural and organizational conditions. Formalization as a means to make sense (Vlaar et al, 2006) enables integration managers to overcome problems of understanding derived from differences in culture. It refers to the provision of structures, procedures and processes based on careful consideration of cultural differences. As previously mentioned, the purpose is to establish common ground between the two former organizations, coherence and convergence in the achievement of the newly formed entity’s objectives.
- Internal consistency is defined as the existence of coherent, joint task and sociocultural integration mechanisms, referring to ‘bundles of practices’ for effective M&A integration. Bundles of practices generate superior performance in reinforcing HRM internal consistency. Likewise, effective task integration and sociocultural integration are contingent on mutually reinforcing practices (Becker & Huselid, 1998). Research points out that the mechanisms used by integration managers to foster learning and bonding in international combinations are cultural awareness seminars (Sales and Mirvis, 1984), cross-cultural knowledge management teams, joint learning teams (Grotenhuis & Weggeman, 1999) as well as dedicated integration task forces and
committees (Horwitz et al, 2002). The mechanisms used by integration managers to foster teaming are international staff meetings, regular cross-cultural staff meetings, mixed project teams, joint functional meetings, personnel rotation, inter-unit communication (Haspelagh and Jemison, 1991; Shrivastava, 1986). These mechanisms must be consistent and mutually self-reinforcing to bring about sustained cooperation.

Proposition 4: cross-cultural integration management is a formalized, consistent management process. It builds convergence in alleviating tensions, turns threats into opportunities and reconciles diverging views of reality in achieving task and sociocultural integration. It is based on mindful enactment of both objective and subjective culture through cross-cultural learning.

![Cross-Cultural Learning](image)

**Figure 2:** the building-blocks of integration

This development supports the need for a more holistic approach: a joint integration approach calls for an enhanced cross-cultural integration management approach combining task and sociocultural integration to leverage diversity. The role of cross-cultural managers is to formalize mechanisms based on cultural learning to build socio-cultural identity in enhancing knowledge transfer. In doing so, they use bundles of practices that characterize high-performing organizations (Becker & Huselid, 2005; Gooderham et al, 2008), confirming the importance of “complementary resources”, the notion that individual policies and practices “have limited ability to generate competitive advantage in isolation”; but “in combination, they can enable a firm to realize its full competitive advantage” (Barney, 1988).

Cross-cultural management is thus presented as a distinctive capability (Coisne, 2012) implemented by cross-culturally agile teams (Caligiuri, 2010) able to bridge the cultural divide.

**CONCLUSION**

This study has investigated culture in international M&A from a management perspective with the intent to go beyond the traditional, static analysis of culture behind the culture-performance relationship.

Cross-cultural management interventions proceed from acknowledging and managing diversity. Diversity in national and organizational origins is no longer seen as a threat, but an opportunity. Social identity theory (conflicts, unconcealed tensions), organizational learning (larger talent pool and sources of knowledge) and resource-based (new integration capabilities) theories are put in perspective to account for the constraints and benefits inherent to cultural differences. In addressing culture as a dual knowledge system, the management of cross-border M&A turns the potentially adverse effects of integration into benefits.
Cross-cultural management interventions are formalized and consistent: integration effectiveness is contingent upon the mutually reinforcing sociocultural and organizational integration. Three processes – learning, bonding and teaming – are paramount to effective integration. They translate into formal mechanisms such as cross-cultural awareness seminars, international transfers and mixed project teams which are critical in creating understanding, building trust and sustaining cooperation.

Such a proactive management approach in addressing cultural differences brings about the following considerations:

- Diversity cannot be managed through command and control but through careful, collaborative consideration of work team design (task integration) and teams’ assumptions towards work (sociocultural integration).

- Diversity breeds conflict. Diverging viewpoints on how to execute tasks (task integration) and diverging attitudes towards cooperation or decision-making (sociocultural integration) may jeopardize company operation, if not handled effectively.

- Diversity is tantamount to ambiguity. Building unity through diversity entails tolerating ambiguity. Not all differences can be addressed simultaneously and a certain degree of ambiguity has to be accepted if the organization is to move forward.

Integration leaders’ role is to help teams identify high-performance solutions to organizational problems. Cooperation, positive conflict and tolerance of ambiguity are endorsed by leaders who successfully manage the difficulties of interacting with dissimilar others.

Endorsement of cultural differences is enacted by cross-culturally agile managers (Caligiuri, 2010) able to navigate in and out of different cultural systems.

Leveraging cultural differences through cross-cultural management is consequently presented as an alternative to the cultural distance paradigm which has dominated M&A research in the last thirty years. It shifts the examination of cultural differences from a static to a promising, dynamic perspective.

Even if the limitations of this paper reside in its conceptual nature and its assumptions and propositions need challenging and testing, addressing cultural interaction is an orientation which may well advance the understanding of the cultural enigma in cross-border M&A integration.

REFERENCES


