

Intercultural Challenges and Cultural Differences Derived from Cross-Border Post M&A Integration Process: Case study

A Master's Thesis submitted for the degree of
“Master of Science”

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Affidavit

I, **SUJOUNG RHEE, BSC**, hereby declare

1. that I am the sole author of the present Master's Thesis, "INTERCULTURAL CHALLENGES AND CULTURAL DIFFERENCES DERIVED FROM CROSS-BORDER POST M&A INTEGRATION PROCESS: CASE STUDY", 59 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted the topic of this Master's Thesis or parts of it in any form for assessment as an examination paper, either in Austria or abroad.

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Abstract

Cross-border M&As have become increasingly dominant due to the supplementary benefits beyond the national border can deliver in addition to the domestic deals. Though cross-border transactions give opportunities with customer expansion overseas, companies are also confronted with new barriers and complexity. The cultural difference in post-M&A companies is much larger in cross-border cases when more sophisticated integration is required for companies from different national cultures.

This master thesis presents a model based on theories that determine fundamentals of cultural differences from three levels, from national, organizational, to personal. This model of cultural onion can be demonstrated in correlation or interrelation to each different cultural level, where outer layer can influence the inner most layer. Under the scope of research question focusing on the cross-border M&As, not only national differences were challenging the M&A integration process, but also organizational and personal differences were equally impacting the practice of merging businesses. The cultural gaps as an outcome served to create difficulties in the marriage of two completely different companies from the different business sectors. However, secondary factors such as communication, human interaction, system integration, and knowledge transfer also found to be contributing to the challenges faced by the companies amid M&A activities.

Key words: Cross-border M&A, M&A integration process, intercultural differences, cultural dimensions, automotive industry

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1. Introduction

1.1 Research Background

The major benefit of M&As are generating synergy and diversification, which are widely recognized by the increasing needs of improved unifications of different companies. To maximize the gain of benefits and opportunities through M&A deals, the company have multiple respects to consider, which are not simply straightforward. Historical statistics show that not all M&A deals have achieved the expected outcome, where a 44% of the merged companies in the long run resulted in the lowest premium price (Kaplan & Weisbach, The success of acquisitions: Evidence from divestitures, 1992) or 70% of the M&A cases showed desired targets were not fulfilled (Sirower, 1997). Therefore, the topic has become necessary to examine the reasons affecting the outcome of the transaction. Though financial and market knowledge play a key role in M&A transactions, the study shows an understanding of human issues, namely organizational and cultural aspects, play the major role that leads to the success (Lees, 2003). Early study focuses on the strategic, financial, and operational consequences of merger activities predominantly and minor number of research on the human aspects of the M&As (Buono, Bowditch, & Lewis, 1985). Post M&A companies showed organizational change as the major root of cultural changes in relation to employee perception, organizational behavior, and national culture. Cultural differences are considered as a common root cause of M&A regardless of positive or negative directions, which is also inevitable differences in a business-to-business marriage.

In the recent years, cross-border M&As have become increasingly prevalent due to the additional benefits beyond the national border can deliver supplement to the domestic deals. Though cross-border transactions give opportunities with customer expansion overseas, companies are also faced with new obstacles and complexity. The cultural difference in post-M&A companies is much larger in cross-border cases when more sophisticated integration is required for companies from different national cultures. Variations between the companies involved in M&A always exist, even among those that share common characteristics. Additionally, companies after cross-border M&As that pursue different deep-rooted cultures tends to prevent them from moving forward being successful. Furthermore, cultural differences in companies after cross-border

M&As are often demonstrated as more intense as cross-border M&As have practiced less flexibility and adaptivity to the new business environment. Similarly, culture in cross-border M&As is often illustrated as the inevitable reason for success or failure (Jansen, 2002, p. 381). One of the critical problems that cross-border M&As can provide to the integration process is the ambiguity of international interaction (Risberg, *Mergers and Acquisitions: A critical reader*, 2006). There is a belief that this ambiguity is the other imbedded issues derived from self-understanding of the employees towards M&As. Cultural gap can certainly complicate collaboration and cooperation among between mergers and acquirers, particularly in the case of cross-border transactions, which often leads to the negative impact to the organizations. Pribilla claimed that the culture shock is the “the hidden cost of mergers” (2002, p. 312).

Businesses in dynamic international markets increasingly face diverse levels of competition, where the new product development and processes play a key role. Strong international competition leads to technological changes with shortened product life cycles and growing technological complexity pressure companies to design better products sooner and more efficiently. This tough competition directs companies to focus on process improvements and optimizations. However, product development processes are not deterministic and therefore one single prime process design is not existent. Product development processes comprise multiple dependencies between different tasks and diverse members that require coordination of activities and the ability to apprehend incomplete information that evolves over time.

In product development industries and many original equipment manufacturers (OEMs) consider reduction of project lead time from concept creation to market sales as one of the critical company competences that allows competitive advantage in the environment. Thus, a focus on achieving higher performance as gain of competitive advantage became one of the primary challenges for many companies. In this context, efficiency means improvement of product development process, which is an act of betterment of what has been performed already. The measurability of the improvement area is a highly valued characteristic upon selecting improvement initiative due to its examinability to determine whether improvement is successful or not. Organizations intend to measure respective improvements, which result in efforts creation in the areas that can be measured in time or money. This as a result creates organizational behavior

to prefer internal efficiency factors over external efficiency factors and often leading into negligence due to the difficulties in measuring their involvement. However, the with the efforts to improve the product development process, the concentration should be on higher effectiveness and doing the right things instead of increasing efficiency. By constraining the focus on efficiency and limiting to only improving what has already been done, the questions rise whether the organization is doing the right thing is neglected and determinations to improve could be misdirected.

Both industry and literatures place less emphasis on effectiveness than on efficiency. So that companies can achieve higher development performance, the effectiveness must be considered further. The product development process is contingent to both efficiency and effectiveness in the involved task execution to be prosperous. To combine project performance and business value, it is significant to realize the characteristics of the specific project. Although the project characteristics are critical to the effective management of projects retaining new technologies, comparatively limited studies deal with the problems or relationships between specific characteristics and project success.

Products and services became increasingly interchangeable nowadays, which often leads to loss in unique identification. This leads to wide range of choices for customers. Products undertake distinct phases during their life cycle (Vernon, 1996). The late stage, known as “maturity”, is described as sales peaks, falling market shares and profits due to increased competition followed by cost-cutting cycles (Vernon, 1996). Classical commodity business shows resemblances to this late phase, where a commodity is considered as economical goods and services with full of substantial fungibility in which market treats instances of the good as equivalent or nearly so with no regard to who produced them. This implies that parts of the company are gradually moving in the direction of a commodity business.

Delivery time became a significant role as a competitive advantage. There is an increasing tendency among customers to rate suppliers by taking into consideration of various factors, namely price, quality, and service with a predominance relevant to delivery of time given (Agarwal & Borchers, 2009). Many organizations have come under pressure to commit to delivering ever more innovative designs, including new products, on ever shorter timelines. On the other hand, despite the technological

devices and robust management software, projects still take the same time or more than ten years ago, and very often they are delivered late, out of budget, or their requirements and specifications are cut to meet the original deadlines. In this uncertain environment, conventional project management practices are no longer adequate.

Ahammad, Tarba, Liu and Glaister (2014) present an interesting approach arguing that greater national cultural distance and organizational cultural differences the greater help create unique knowledge-based resources and encourage companies to actively transfer these into the combined enterprise, as well as post-acquisition performance.

1.2 Research Problem and Motivation

Due to growing number of studies and academic journals related to M&As, the literature review of the past and current theories is executable. Therefore, the nature of the problems is already identified and provide a wide range of analysis. This master thesis is beneficial to understand and make sense of the real-life example of the company going through a M&A procedure. Though many statistics show high failure rates of companies going through M&A dealing particularly with human issues or cultural discrepancies, this research paper principally pays attention to the intercultural challenges and cultural differences upon integration process. Furthermore, these cultural gaps play a significant role effect in either success or failure of the case. There is a common statement that resistance to change often leads to challenges facing cultural and organizational incompetence, which highly corelates to the success factor of the business after the post M&A phases (Pribilla, 2002).

Research motivation derives from the researcher's direct experience going through a post M&A phase at the current employer, which has caught interests and inspirations to understand the previous and existing symptoms within the organization throughout the M&A process reference to literature review of theories. Additionally, to explore the different notions and their perceived emotions from individuals within the company to understand the organizational and cultural aspects that has impacted from the M&A activities.

To deeply analyze the details, empirical evidence is required for exploring the theories from the reliable sources and specified research scope related to intercultural challenge.

1.2.1 Aims

This master thesis aims to narrow down and concentrate on a South Korean company that has gone through an acquisition activity to an Austrian business in the last decade to specifically differentiate the culture gap between two identified foreign organization during the integration phase. The non-objective is not to focus on the large multidimensional and multinational case due to complexity of the factors that need to be considered in a wider scope.

The research questions chosen by the author is:

Intercultural Challenges and Cultural Differences Derived from Cross-Border Post M&A Integration Process: Case study of a South Korean global company establishing a new Austrian overseas affiliate through an M&A deal.

1.2.2 Objectives

- Examine existing theories from academic sources, namely books and scientific articles on intercultural challenges of cross border M&As.
- Review cultural and organizational characteristics between South Korea and Austria using Hofstede's value of six dimensions.
- Collect data of the selected M&A case and execute qualitative study based on secondary sources and open interview on site.
- Analyze collected data to provide a general deal result of the M&A case, either success or failure.
- Apprehend respondent research limitations and provide improvement ideas for further research.

1.2.3 Hypothesis

Review of academic research on the focused objectives and personal knowledge from the industry environment leads to identification of underlying hypothesis.

- National cultural differences between South Korea and Austria contributes to the main changes during M&A integration process
- Discrepancies in organizational structures and the business operation leads to cultural gaps in the post M&A process

- Lack of M&A experience of the examined company contributes to the cultural challenges

1.3 Research Structure

This research is structured into five different chapters that will be demonstrated in detail from fundamental knowledge about key terminologies to the discussion after literature review of the existing theories and a selected case study.

The initial chapter presents the overall background of the selected research problem and the author's reason to execute the study. Major aim and objectives are defined based on the research question which lead to the state of hypothesis.

Following section presents the research methodology defining the execution strategy of the research question with the explanations of the research execution means, data collection and key terminologies.

After demonstrating the focused topic, next chapter provides the state of the art through detailed review of the literatures based on the stated aims and objectives. The main content will comprise of three parts: 1. Cultural integration in M&As and related processes; 2. Cultural differences in national, organizational, and personal levels; 3. Cultural differences and the relationships to the deal result.

Once the literature review of the theories and practical examples are analyzed, the author discuss the result of the empirical study of academic sources with a combination of a case study in the following chapter.

The final chapter five provides a conclusion. Summary of research result with analysis and implications are revisited providing further contributions. Problems and limitations identified throughout the research are illustrated with recommendations for improvements. At last, three hypothesis statement formulated in the instruction will be evaluation with additional findings contributing to the future research topics.

2. Research Methodology

This chapter examines the methodology of this master thesis. The thesis is designed to investigate intercultural challenges as it occurs in a multicultural company under post M&A event between an acquirer South Korean mother company and an acquiree Austrian located manufacturing plant, originally a subsidiary of Canadian based conglomerate. Intercultural challenges appear in diverse forms of social interactions from behavior, belief to language. Therefore, it is appropriate to execute an investigation adopting qualitative research with an intrinsic case study. This chapter demonstrate the means of research execution and methodology of data collection contributing to the analysis. Finally, it raises different issues of validity of the research and suggestions of techniques to overcome those issues.

2.1 Research Approach

This research develops a case study method to assess the current situation of intercultural challenges of an organization going through different transformational situations within an automotive industry. Among different types of case study, this research adopts an intrinsic case study to understand the interactions in multicultural working environment in-dept with details. Intrinsic case study is classifying as one of the four major approaches to undertake an investigation to gain better understanding of a particular case (Stake, 2005).

Through empirical study of the existing literature review from authors and practitioners, general research approach is summarized based on the focused aims and objectives. The main research approach applies both inductive and deductive methods, where deductive research practices test and hypothesis approach through an empirical observation whereas inductive method creates a theory-based observation to execute empirical study (Saunders, Lewis, & Thornhill, 2007; Bryman & Bell, 2007).

2.2 Means of Research Execution

The research strategy is mainly divided into two alternatives, qualitative and quantitative, according to the business research philosophies. Qualitative strategy is commonly respecting the inductive approach with the notion of subjectivity. This approach is used to focus on the unique content to collect and analyze the data. The

findings lead to subjective interpretation of the author (Bryman & Bell, 2007). On the other hand, quantitative strategy follows the deductive approach. The author strives to justify the hypothesis from a generic view to come across answers to the research question.

In this study, the author first uses the quantitative approach to formulate a theory-based knowledge to understand the complexity of M&A process. Then use the qualitative approach to practice open ended interview for analyzing the situations for the case study.

2.3 Data Collection

When the data collection methods and data type were determined, research design was considered based on archival research referencing secondary sources. To avoid error in validity, qualitative approach in the form of open interviews were chosen to gain additional data as primary sources. Interviews with selective people in the cross-border cases were arranged to enrich the data. Open ended and questions were used to bring in different cultural views related to the research topic.

2.4 Data Analysis

Data analysis defines a process to generate research finding constructed on the theories examined in the literature view. While quantitative approach analyzes the data based on statistical figures, qualitative approach manages to make correlations of the collected data. This method has four major steps of data analysis compromised of data categorization, data unitization, relationship recognition and drawing conclusion (Bryman & Bell, 2007). One of the important considerations upon data analysis is the quality criteria to avoid any error or problems to the data validity.

2.5 Key Topics and Terminologies

2.5.1 Cultural Challenges in Mergers and Acquisitions

Businesses today are integrating in growing numbers. Executives look for mergers, acquisitions, and joint ventures to generate greater value by (a) acquiring technology, products, and market access, (b) creating economies of scale, and (c) building a global brand presence (Miller & Fernandes, 2009). There is a fundamental belief, where most

markets can generate revenue for three major suppliers and the desire to merge is irresistible upon existence of more than three in the marketplace. However, the business world appears to be littered with integrated companies that have lost shareholder value. This inevitably raises the question “which forces are strong enough to counteract the value-added power of economies of scales or global market presence?” Culture had become one of the foremost hurdles to effective integration. One study found that culture is the cause for 30% of failed integrations in the frame of three years (Dixon, 2005). Organizations with diverse cultures find it tough, if not impossible, to make decisions fast and operate effectively at the right timing.

2.5.2 Definition of Culture and Its Implications

Culture comprises of long-term values, beliefs and assumptions that are largely implicating to influence the behavior, attitude, and the society, which can be seen as the meaning within the organization (Miller & Fernandes, 2009). This definition of culture provides three major implications.

- Culture is intrinsic, where people who share a culture find it difficult to recognize their respective culture.
- Culture influences the way people behave and how people understand their own actions. Therefore, beliefs and actions that are culturally manipulated feel adequate to people, even when their implicit underpinnings make it difficult for those people to understand why they act in the way they do or why other courses of action might also be appropriate (Dixon, 2005).
- Culture is resilient to which the elements are enduring and not trending as a fashion. The resilience of culture is strongly related to the aspects of culture being intrinsic. It is challenging for people to realize their own culture and how it affects them. The retentivity and long-lasting effect of culture is due to the feelings of right and comfort to people. The new cultural values imposed on people rarely replace their primary values and principles in the long run.

These cultural implications contribute to companies in the act of M&A. If people purely performed based on rational calculations, such as the behavioral model favored by economists, mergers may be effective or ineffective depending on the strength of their economic fundamentals. Nevertheless, those involved in mergers are humans and

are driven by both shared culture and individual characters. Cultural influences can be comprehensive and wide-ranging.

Culture influences	Consequences in
Decision-making style (e.g., linear top-down approach vs. horizontal consensus)	<ul style="list-style-type: none"> • Successful integration requires fast decision-making. • Distinctive decision-making styles can result in slow decision-making, no decision-made, or failure to implement decisions.
Leadership and management style (e.g., autocratic vs. consultative; clear vs. diffuse)	<ul style="list-style-type: none"> • A change in leadership or management style can create employee turnover for those whom oppose to the change. High fluctuations tend to be shown among high skilled experts, who often represents the mobile employees. • Failure to retain top talents may rapidly undermine the value in an integration through draining intellectual capital and market interventions.
Ability to change (willingness to take new risks vs. focused to preserve current state and targets)	<ul style="list-style-type: none"> • Unwillingness to apply new strategies • Unwillingness to face the inevitable challenges of establishing a new business.
Working style (e.g., based on formal structure and role definitions vs. based on informal relationships)	<ul style="list-style-type: none"> • M&A companies will generate interfaces between functions originating from each legacy company or new functions integrating employees from both legacy companies. If the cultural assumptions of respective legacy companies are inconsistent, business process and handoffs can fail in a result of employee

	frustration led by lack of understanding and sympathy of other’s working style.
Individual mindset of “Success” (e.g., organization focused on self-orientation vs. team-orientation vs. senior (expertise and experience)-orientation)	<ul style="list-style-type: none"> • Similarly, individual belief differences can cause breakdowns in job execution. If a team-oriented employee interacts with other employee having a notion of “success” as individual performance, it may result on a conflicting situation often characterized by personal dislike or lack of support on task completion.

Table 1: Cultural implications upon M&A

2.5.3 M&A Specification in Automotive Industry

An investor's judgement to acquire, sell or develop projects in a particular region or nation is not based exclusively on economic, commercial, or financial reasons (Zait, Warter, & Warter, 2014). In specific operations, the meeting between entrepreneurs, managers and other professionals in the field is above all a meeting in particular circumstances between diverse cultures. Zait (2014) highlights the mix of different solutions such as cultural origin mainly offering the opportunity to achieve significant cross-cultural synergies in business, management, negotiation, or marketing, etc.

The automotive industry entered global market for a significant period, where cross-border M&A traditionally associates to the overall industry level M&As. Primary initiatives of cross-border M&A of automotive companies are opportunities to new markets and customers, acquisition of new manufacturing capacity and technological knowledge, and customer expansion in existing market sector as well as emerging markets.

He. Y. (2009) also underlines that the performance are affected by the acquisition process taken by the acquiring companies. Acquiring companies are more successful in gaining knowledge of the subsidiary by adopting a gentle approach or initiating a gradual change into the organization. This is due to greater time and resources provided upon dealing with the issues and challenges throughout the integration process.

When demand rises in the automotive industry, companies aim to improve their products and services by conducting M&A. Contrarily, as demand weakens, the reason for acquisitions shifts from high-technology investments to cost-reduction approach. In this context, company with diminished valuations have enabled the major automotive manufacturers to include increased integration in their cost-cutting strategies in addition to expanding their product range. Literatures proven that organizations gained competitive advantage through reconciling their differences whereas decision to non-reconciliation have led to 70% of failures ins mergers (Trompenaars & Asser, 2010). Contribution result in a significance outcome regardless of the business size, small or big, and whether they are buyers or bought.

Study of Uljin, Duysters and Meijer (2010) demonstrate that more than half of performed strategic alliances and M&A end up in unsuccessful integration. Previously, practitioners have concentrated on hard factors, such as financial and strategical factors, to explain the success or failure of these external behaviors. And more recent research focused on ‘soft’ factors, namely organizational and personnel issues, gained more prominence. Nevertheless, the overall success of most M&As remain as an open subject of further research and debate. For example, Skoda-Volkswagen M&A proves a successful strategic alliance in the past, whereas others such as Rover-BMW, leads to failures that reinforce the necessity to assess the motivations and determinants that can impact and explain the complex process in all phases of M&As (Warter & Warter, 2016)

In the last decades, cultural diversity in organizations became one of the many valuable assets and liability (Warter & Warter, 2014) Minimizing the losses related to cultural diversity and realizing the gains equally depend to the ability of the manager’s ability to effectively conduct negotiations and due diligence processes.

Although many academic and practitioners consider accounting measures as one of the preferred factors, not all consider them optimal when measuring performance. Contrarily, some favor to focus on the degree of conflict at the organizational level or the level of realization of synergies (Warter & Warter, 2014).

Since mergers and acquisitions in the automotive industry are comparatively rare and unforeseeable, these explicit M&As pose a tough challenge for senior management: joining and managing the pre- and post-merger phases of the M&As.

Marks and Mirvis (2011) also emphasize that the acquisition of a company involves devising strategies, exploration, evaluating and selecting a partner, executing agreements, and preparing for the eventual merger.

Financial aspects of the M&A deal cannot be neglected in the distinctive approach. Initial focus of the buyers is on the value of the business target and its price premium to be paid in determination of structuring the transaction. By comparison, the effective approach not only stresses finances, but also adds careful attention to how a combination drives a company's business strategy, due diligence on behavioral and cultural factors that might complicate the combination, and better image (Warter & Warter, 2017). Any M&A activity involving automotive companies from different countries can create significant barriers to successful integration. These complications that requires to be resolved can be local regulations and industry standards, local language, culture, and many others.

3. State of the Art (Literature Review)

This chapter reviews wide range of literatures based on the existing theories related to the topics which are categorized into three different sections.

- (a) The first section intends to demonstrate an overview of M&As from general concept, process phase definition to cross-border M&As, where cultural integration will be presented in summary leading into the next section.
- (b) The second section examines diverse layers of cultural differences that are derived from the process of integration, which then in detail explores various types and levels of culture from national, organizational to personal.
- (c) Having examined distinctive cultural differences in three layers, the third section helps the previous part of the research question on how the cultural differences affect the outcome of business. In this section, the elements that influence the outcome of the M&A deals are primarily identified as cultural differences. Cultural differences are existent, yet the issues are mainly arising from the questions of how companies deal with those differences as an outcome of the deal impacted by acculturation mode.

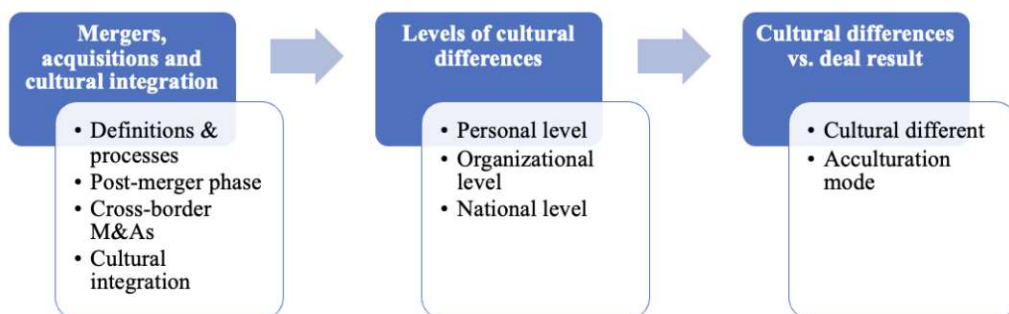


Figure 1: Structure of literature review

3.1 Cultural Integration in M&A

3.1.1 Definition of M&A and Processes

From a business strategy perspective, mergers and acquisitions are a fastest solution to rapidly expand the business that allows strong growth instead of investing many

years of hard work (Krendl, 2000). Generally, both mergers and acquisitions are the transformation process from company perspective. Nonetheless, there is a significant difference between those of mergers and acquisitions (Basmah & Khan, 2014). Merger is described to have two relatively and nearly identical companies are combined into one organization. On the other hand, acquisition means that the larger company takes over a smaller one (Epstein, 2005). The merger and acquisition could be characterized by pairs of variables such as the relationship between two companies, the form of payment or the reasons. Examples of motives include increasing market share, reducing or eliminating competition, getting into a business quickly and cheaply, buying a business on impulse at a bargain price, reducing over-reliance on geographic footprint, acquiring new technology, the exploitation of multiple synergies, the desire for rapid growth, even the desire for prestige associated with the acquired company (Kim & Nofsinger, 2007, p. 105). All of these reasons can be summarized in three categories: enhancing operational or financial synergies, diversification through expansion into new business areas, and both synergistic and diversifying (Kim & Nofsinger, 2007, p. 106). While not all mergers and acquisitions have the same starting point, the end results are fairly similar, which serves to eliminate conflict. s and integration of the two companies (Elsass & Veiga, 1994).

To manage the M&A process more effectively, practitioners divided the integration process into three phases, namely the pre-fusion phase, the intra-fusion phase, and the post-fusion phase. However, everyone spoke of the fact that in the pre-merger phase, the corporation must perform the study and analysis of its external and internal environment. The result of this phase is the merger plan, which attempts to answer the question of whether, when and how to merge or acquire another company (Vu & Rusi, 2010). The plan will then be implemented in the phase during the merger. This phase involves heavy negotiation, due diligence and evaluation of the company. Mostly cases, this continues and ends until both parties sign the merger or acquisition come to an agreement and integration begins in the post-merger phase (Picot, 2002).

3.1.2 The Post-Merger Phase

The research shows that the stock prices of the acquiring companies increase significantly in the short run, yet only 44% of them had the lowest mark-up price in

the long-term previously (Kaplan & Weisbach, 1992). In 1997, Sirower also argued that the desired goal was typically not achieved up to 70% of M&A transactions. As a result, multiple practitioners have begun investigating the reasons behind these M&A failures. Some suggested that the major failure is caused by ambiguous instructions in the pre-merger phase. Furthermore, Epstein (2005) argued that poor execution of the post-merger integration phase is the main root cause leading into failure. This does not only directly impact the organization's long-term performance but also is unpredictable and complex to manage. As a result, the post-merger phase is attracting increasing attention in the M&A research.

The post-merger integration process considers two major phases, namely design integration and execution integration (Koch, 2002). The comprehensive approach is illustrated in Figure 3 below. In the design phase, the acquiring companies would define the merger claim and create a common culture of performance, which the duration lasts approximately two to three months. Firstly, the acquiring company must show the future direction of the organization from three perspectives, namely Vision, Value Creation and Opportunities, Functionality, which have been considered since the beginning of M&As. Secondly, to ensure the new organization to follow the new strategy, a shared perspective of the new company is developed, based on a deep understanding of individual attitude towards company value. Once the integration framework is created, the integration is executed. This process usually takes one to two years (Koch, 2002).

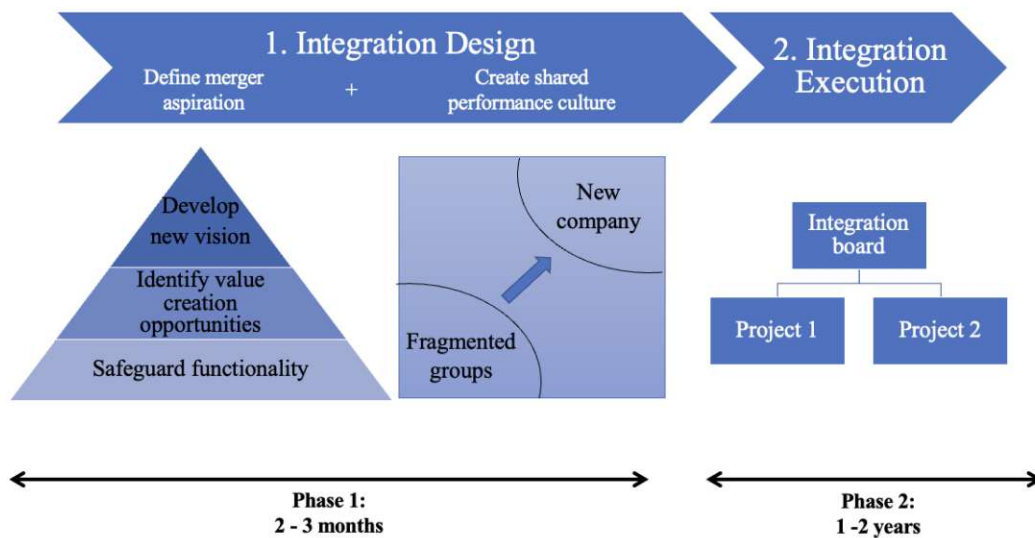


Figure 2: M&A integration approach

When designing the concept of integration process, the acquiring company must first determine the type of integration approach. To control the implementation efficiently, the type of integration needs to be thoroughly adapted to the external environments, the business capacity, and the integration targets of the M&As. In relation to other reviews, Shrivastava addressed the three different types of post-merger integration that divides into first procedural integration, second physical integration, and lastly managerial and socio-cultural integration in terms of motivation can be classified by mergers and size and form of corporations (Shrivastava, 1986). Procedural integration refers to the integration of diverse systems and processes of the companies at all levels from operational, managerial control to strategy planning (Shrivastava, 1986, p. 68). Physical integration implies the consolidation of product lines, production technologies, Research and Development projects, overseas plants, and real estate assets (Shrivastava, 1986, p. 69). Lastly, managerial, and sociocultural integration applies to the changes in organizational structure, corporate culture or behavior, and management style (Shrivastava, 1986, p. 70). Due to the particularities of the individual case and scenario, the type of integration varies significantly during implementation phase, which as a result combination of two or three types of integration can outcome in a post-merger process.

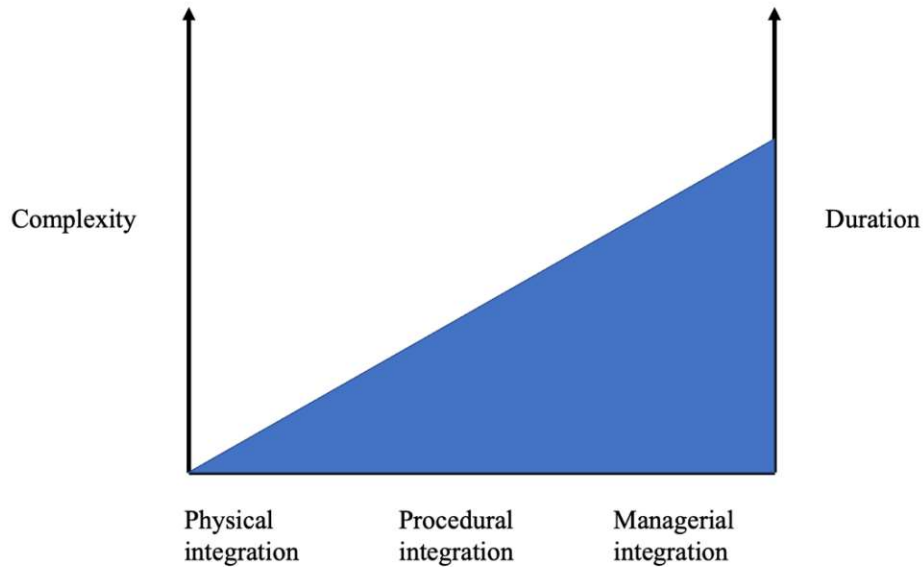


Figure 3: Post-acquisition integration overview (Nummela, 2004, p. 86)

In recent research, Nummela also compares the three major types of integration approach in correlation to the perspective of complexity and duration as shown above in Figure 3 (2004). This summary suggests the companies that involve managerial integration will face more complicated challenges as cultural changes are directly related to the process that are in high duration and complexity leading towards higher risk of failure in the post-merges phase (Nummela, 2004, p. 86). There are indeed various other reasons for failures in post-merger integration such as neglecting the customer upon integration, insufficient knowledge on the industry and the acquired company, yet focusing on the role of cultural change that triggers cultural tensions will fatally impede the success of integration (Nummela, 2004). As a result, this research paper will concentrate on analysis of the culture between the two main companies participating in the M&A.

3.2 Definition of Cross-border M&As

Cross-border M&A is described as an act of conduct between companies of different national or countries of origin (Kang, OECD, & Sakai, New patterns of industrial globalization: Cross-border Mergers and Acquisitions and Strategic alliances, 2001). In parallel to increasing globalization, the number of cross-border mandates is significantly growing, which accounts for more than 85% of foreign direct investment

(Kang & Johansson, 2000, p. 4). Though cross-border mergers allow companies to enter the foreign market more efficiently or gain market share, new challenges and threats arise on the other hand. Cross-border M&A bring advantages that participants expect as they face greater challenges and obstacles from a foreign business environment. To demonstrate the situation, Davis (2010) considers the acquisition and merger of companies that operate cross-border M&As without sufficient understanding to be innocuous about going abroad. One of the key findings is that foreign expansion allows companies to expand their product sector and customer range going abroad, but cross-border transactions generate complications (Davis, 2010).

Even though domestic and cross-border M&As share common characteristics, forming alliances in a foreign market is always considered more complicated. Shimizu, Hitt, Vaidyanath and Pisano (2004) described it as “double-layered acculturation” that derive from the difference of national, organizational, and personal culture. Depending on the motivation for the merger, the cross-border acquirer and the merging companies will design their own way of integration. When it comes to management integration, such as to change the structure of the organization, then further integration becomes more complex compared to national mandates because the additional national cultural divide brings additional conflicts.

The problems in cross-border M&A go far beyond cultural differences, with problems of geographic distance and different market structures. In detail, misunderstandings and misinterpretations can arise due to a lack of face-to-face communication. Operating in a foreign market can lead to difficulties in understanding different market structures. Furthermore, the question of the foreign language is another factor that hinders the integration process (Risberg, 2001, p. 59). Integration processes are said to be predictable, so knowing the expected differences can help investee employees avoid culture shock.

Above selected reasons examining the integration process in cross-border M&As seems to be an interesting topic, especially with regard to cultural integration, which has received greater attention in recent decade (Vu & Rusi, 2010). Therefore, this research topic eventually revolves the cultural division between the acquiring company and the target company in the cross-border case, and try to answer the question "How do cultural differences arise?" to answer. enable these cross-border

M&A companies to have a more comprehensive understanding of cultural differences (Vu & Rusi, 2010).

3.3 Cultural Integration and Process

A new environment creates differences which always requires changes or adjustments. For this, the question of what management should do to align the merged and or acquired companies with the merged and or absorbing companies has attracted growing attention. In addition, in recent years it has repeatedly been necessary to concentrate on cultural integration as an unavoidable process in the post-M&A phase. To manage M&A successfully, Marks and Mirvis (1986) argued that if there is compatible cultures in the organizations, it is suitable to integrate immediately after M&A. However, if the cultures of the participating companies collide, they need to be aware of slowness and respect the differences as much as possible.

Since cultural integration in M&As acts as an important role during the integration process, further topics such as organizational issues, behavioral and personnel problems can also be seen as probable reasons for M&As failure. Consequently, it is necessary to investigate to what extent the process of cultural integration functions and leads to the outcome of acculturation.

When the M&A transactions are completed, remaining execution work in the M&A process is to facilitate the collaboration of two previously autonomous companies, which is referred as the integration process (Risberg, 2006). In Haspeslagh and Jemison (1991), integration is comprehended as a crucial success factor in companies according to M&As (Risberg, 2006, p. 73). Since integration plays an key role in M&A agreements, it should be considered to increase the advantages it can bring as well as to eliminate some risks that integration may cause due to unavoidable differences. Working in a new environment is generally a difficult task, which can be explained by the perceived differences in many aspects. As a result, Legare (1998) argues that an smart integration is required for M&As to be successful.

From the perspective of Nummela (Nummela, 2004, p. 85), the degree of integration differs considerably and is reflected in two polarized circumstances where the acquired companies retain their own identity and desire full independence or the acquired companies merge completely with the acquirer. Observing the integration layer from

a distinctive angle, as illustrated in Figure 3, beginning with physical integration where limited time and complexity occur, to management integration, which is the utmost complex and time-consuming task. Within the two intense levels, there are different integration stages during the post-M&A phase, which vary in complexity and time required. In the series of studies conducted, it is expected that the higher the degree of integration, the bigger the risk of cultural conflicts and conceivable breaks (Nummela, 2004, p. 85). According to Nummela's (2004, p. 86) theory, the management dimension is the precarious factor in the post-integration process.

Integration needs are greatest in cross-border settings, where differences tend to be coming from different nationalities. In addition to the characteristic of different nationalities, Nummela (2004, p. 87) assumes that cross-border acquisition brings additional barriers to post-acquisition integration with different institutional contexts between national cultures driven by countries' background.

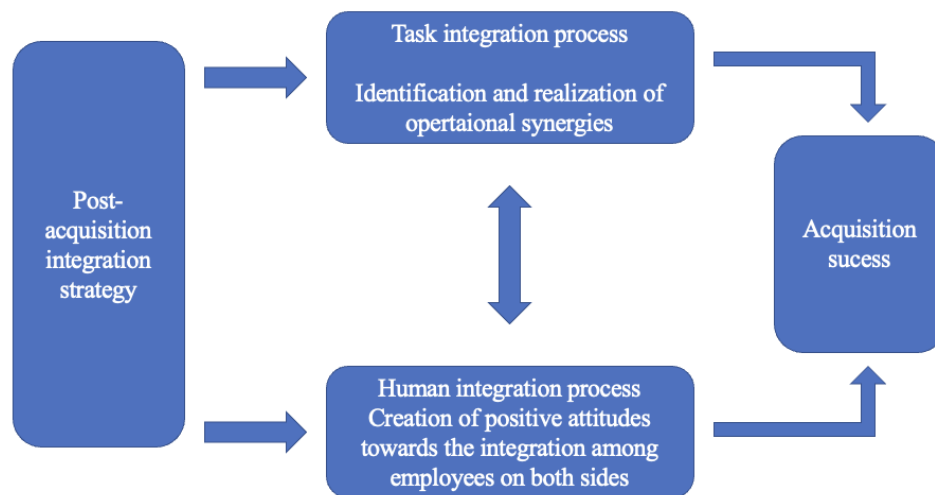


Figure 4: Integration management framework of M&A (Birkinshaw, Bresman, & Hakanson, 2000, p. 200)

Birkinshaw, Bresman, and Hakanson (2000) similarly speculate relationships between human integration and the degree of task integration completion. As revealed in Figure 4, any emphasis on one of the two dimensions can lead to a negative impact on M&A integration.

Over-emphasis on human integration will trigger employee satisfaction but not synergy. However, realizing that human resources are critical success factors in the

company can reduce the effectiveness of M&A if one prioritizes the integration of people over task integration.

The opposite occurs when task integration is more dedicated than human integration, creating operational synergies at the expense of employee satisfaction (Birkinshaw, Bresman, & Hakanson, 2000, p. 399). Although the organization can improve at the end of the deal, the business is likeable to have a negative work environment. As discussed in the text (Birkinshaw et al., 2000, p. 399), employees of acquired firms may view their colleagues at acquiring firms as 'intruders'. enemy" and, in the worst case, even leaving the organization voluntarily when the spirit and commitment vanishes.

In addition, acquisition can fail if neither human integration nor task integration are considered carefully or even neglected. The optimal solution is therefore found when both integrations have to be executed at the identical and relevant level.

Furthermore, they conclude that human integration can be viewed as mediating the relationship between task integration and success in M&As. A low level of human integration will hinder the effectiveness of task integration. Consultants, in Rankine (2001, p. 210), management must balance cultural aspects and task integration when acquiring companies. It can be interpreted that the integration process sometimes needs to be slowed down to ensure the achieved goal.

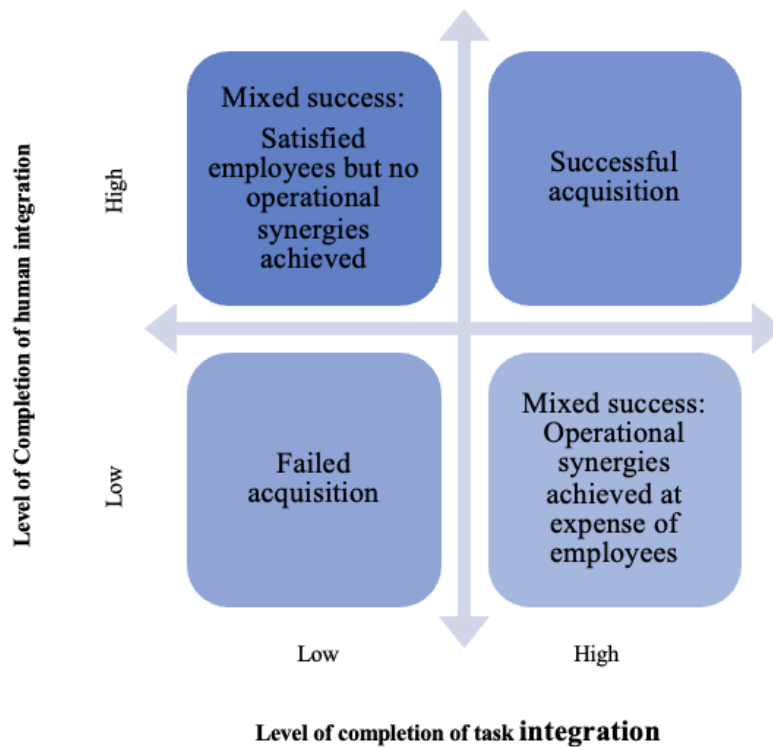


Figure 5: Impact overview of task and human integration processes on acquisition outcome (Birkinshaw, Bresman, & Hakanson, 2000)

While cultural integration is a fundamental part of the integration process, it involves cultural changes. Thus, it affects the organization either positively or negatively. In the following section, the outcome of the deal is related to elements of cultural integration to see how they correlate.

3.4 Cultural Differences and Different Layer in Cross-border M&As

The previous section explained about M&As where cultural integration arises as a need to unite people from different integrated groups with different cultures in a common identity. This can be perceived as more difficult in cross-border M&As when companies of diverse nationalities carries their national culture to their working style (Vu & Rusi, 2010). Moreover, national culture can even play an important role in the impact of culture on organizational and personal levels. The interlocking of different cultural levels in companies in the integration process is therefore in need of research. Therefore, in this research, this relationship can be visualized as a flow of ideas that

we structure to answer the first part of our research question “Intercultural Challenges and Cultural Differences Derived from Cross-Border Post M&A Integration Process”. In this section, our goal is to examine where cultural differences rooted in the recognition that there are layers of difference come from. The next section will detail how one culture differs from others on a national, organizational and personal level in order to fully understand all levels of cultural elements.

Culture levels can be distinguished in different ways. However, individuals believe that cultural differences based on separate levels are well suited to examine the vertical relationship between these levels. Multiple well known theories such as the Cultural Strata demonstrated by Teerikangas and Laamanen (2002) is appropriate to remark related to national culture (power distances, avoidance of uncertainty, and communication context), corporate culture (authority, network, activity and personal culture) and lastly functional culture (unit culture and professional culture) (Nummela, 2004, p. 88). Among the theories reviewed, cultural differences are identified analysis to respective layers. including personal culture as one of the main layers, which is explained in more detail (Lees, 2003) and is therefore considered more appropriate to our need. In this theory, onion levels are used to illustrate the cultural layers, assuming that integration into culture occurs at all levels (Nummela, 2004, p. 88). To give an overview of these levels, following section describes in details.

The national culture level is the outmost layer that shows the effects triggered by the distance between different national cultures in the phase of post-merger in cross-border M&As (Nummela, 2004, p. 89). The national culture is reflected in the daily life of individuals and in collective activities. .Undoubtedly, the cultures of organizations are influenced by their national cultures. The integration of cross-border M&As is to a certain extent the integration of two different national cultures. In order to understand the national cultural distance between countries, Hofstede established the five cultural dimensions, which are considered in this work as a measurement system of national cultural differences and are explained later in this chapter.

The second layer is the organizational level, which represents the organizational culture changes in the target company in terms of values, self-image, work-related norms, organizational practices and power structures (Nummela, 2004, p. 89). The culture of the organization has long been shaped by the members of the organization.

Not only does it have its own specific cultural characteristics, but it also stands for its national cultures. To systematically explain the main differences at organizational level, the cultural network is the main theory used in the case analysis. The cultural network is a system that encompasses and categorizes nearly all organizational-level cultural factors.

The innermost layer is the personal level, which refers to the personal reactions of the target company's employees to M&As. Furthermore, it is rooted in how employees perceive M&As related to identity issues or the anxiety, insecurity, and stress of relocation or job loss, as stated in Lees (Nummela, 2004, p. 89). Differences in personal culture are influenced by the other two levels, one at the national level with a stereotype implanted for a specific country and the other is the organizational culture, shaped by the management, history of that company and influenced by the culture national. As a result, the inner-layer differences at the personal level can be seen as a mixture of national organizational cultures and one's own culture.

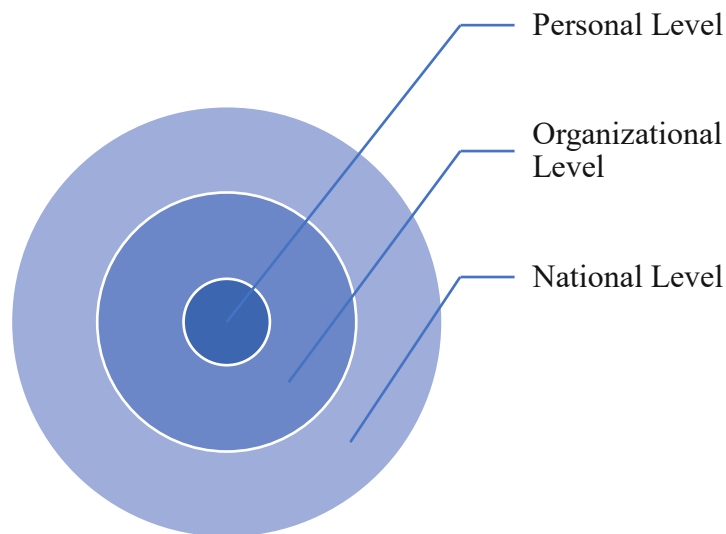


Figure 6: Cross border M&A culture layers

3.5 National Level Cultural Differences

Culture shapes the values, beliefs, attitudes, behaviors, and perceptions of priorities of a group of people (Beamer & Verner, 2001; Hofstede, 1980). The common set of these factors is their collective property, built after a long history of

development (Hofstede, 1991, p. 5). The national culture is likely to be the common values and beliefs of the national group. It permeates everyday life and profoundly affects individuals' personal perceptions (Hofstede, 1980; Newman & Nollen, 1996). Because organizations are built by individuals, national culture is a natural fit within organizations (Nummela, 2004, p. 100). Cross-border M&As typically involve companies that belong to different national cultures, therefore many academics such as Weber, Shenkar and Raveh (1996), Terrikangas and Laamanen (2002) and Lees (2003) have considered national specific culture as a vital research topic in cross-border M&A studies.

Many researchers have pointed out that differences in national culture make it difficult for foreign workers to integrate into the new organization (Hofstede, 1980; Kogut & Singh, 1988; Erramilli, 1991). Baarkema, Bell, and Penning (1996) also suggested that national cultural distance leads to longer lifespans. On the other hand, some researchers argued that national cultural distance might have positive effects on M&As. Ghoshal (1987) and Mayrhofer (2004) suggested that because of cultural distance, the acquiring company might gain distinct competence and the acquired company's performance would also improve (Mardas, Pournarakis, & Varsakelis, 1996; Morosini, Shane, & Singh, 1998) post-acquisition performance. As of today, it is recognizable that the integration of various national cultures in a specific setting and environment carries negative and positive effects, but not yet standardized to what extent cultural distance causes the corresponding influence (Jansen, 2002, p. 381).

The method used here to measure cultural distance is based on Hofstede's cultural dimensions. Hofstede (1980; 1991) proposed the five cultural dimensions to explain the nature of the cultures of around 70 countries: individualism and collectivism, power distance, insecurity avoidance, masculinity and femininity, and long-term orientation. Because this study focuses on cross-border cases of M&A in the western world, the long-term direction related to Confucian dynamics in Chinese culture will not be discussed here; In addition, the following explanations of the individual dimensions are limited to the management framework.

3.5.1 Dimension of Individualism-collectivism

This dimension denotes “the relationship between individuals and their peers in society” (Hofstede, 1983, p. 79). Individualism means that people prefer to work independently and collectivism means that people prefer to work dependent on one another.

3.5.1.1 Individual-oriented culture

Typical employees in the individual-oriented culture tend to put “me” first (Brock, 2005, p. 4), meaning they see themselves as “beneficiaries” before organizations. In addition, they prefer the independent work style, as they believe that achieving the goal is mainly based on personal skills, and not on the help of others. Also, the typical manager reflects on the work quality that determines the company's bottom line instead of the relationship with colleagues (Vu & Rusi, 2010). Consequently, people rooted in this culture feel that it is not necessary to have strong and inclusive relationships with others (Ferraro, 2002; Hofstede, 1991; Tayeb, 1988).

3.5.1.2 Collective-oriented culture

Typical employees in the crowd-oriented culture think in terms of “we” rather than “I” (Brock, 2005, p. 4). For them, the group goal comes first and the personal goal second, believing that personal success builds on organizational success. In addition, they prefer a self-reliant style of work, believing that success cannot be earned oneself and instead together with the support of others. Typical executives find that a good business relationship is sometimes more useful than individual skills. As a result, they become accustomed to forming closer relationships with their peers (Ferraro, 2002; Hofstede, 1991; Very, Lubatkin, & Calori, 1996).

3.5.2 Dimension of Power Distance

This dimension describes the equality between people within different levels of power, prestige and status (Hofstede, 1983). A low power distance reflects high equality among workers, and a high power distance indicates low equality among workers. In addition, the level of power distance is related to organizational structure and leadership style (Hofstede, 1983).

3.5.2.1 Low power distance culture

In the culture of low power distance, people often share egalitarian and informal relationships, for example the leader's decision can be challenged by subordinates and there is no need to call superiors by their formal title (Ferraro, 2002). Additionally, organizations affected by low power distance tend to have a horizontal structure and a bottom-up leadership style. The horizontal structure is that "subordinates are dependent on their superiors to a limited extent" (Ferraro, 2002) and everyone has relatively equal power in the company and the right to influence corporations: the next step (Hofstede, 1983; Ferraro, 2002). Bottom-up management means that managers can receive suggestions from workers at lower levels (Hofstede, 1983; Ferraro, 2002).

3.5.2.2 High power distance culture

Employees in a high power distance culture often face unequal and formal relationships, for example subordinates cannot question their leaders and it is better to refer to superiors by their title (Ferraro, 2002, pp. 105-106). Organizations are built under such a culture. in the hierarchical structure and are managed from top to bottom. The hierarchical structure means that the organization's power is usually concentrated in a few individuals and 'subordinates depend more on their boss' (Hofstede, 1983; Ferraro, 2002). Top-down management is executives delivering messages from the top to the lower levels, and organization is the lack of communication with lower-level workers (Hofstede, 1983; Ferraro, 2002).

3.5.3 Dimension of Femininity & Masculinity

This dimension reflects the roles of men and women in society and also some other related issues (Hofstede, 1983, p. 83). The culture of femininity shows that females have equal status as that of male, or sometime even higher in some representative countries. In the culture of masculinity, women were not treated like men, these men are dominating increasingly important roles in society.

3.5.3.1 The femininity cultures

Working for living in the culture of femininity consider quality of life and personal relationships to be more important than money and a career. They have the idea that

work is life, so they like careers and family activities more than work. In some cases, they even mix family life with their regular work. In this culture, from the perspective of others, the man who is not interested in shaping his own career can be understood. On the other hand, women have almost equal chances to compete with men for higher positions in organizations (Ferraro, 2002). Furthermore, organizations in the culture of femininity tend to have a more collaborative character (Ferraro, 2002; Hofstede, 1983; McSweeney, 2002).

3.5.3.2 The masculinity cultures

Workers in the culture of masculinity focus more on assertiveness, success, competition, and careers. They rank work first rather than living for pleasure as they believe "live to work". When they work, there is of course a clear boundary between job and family life. In addition, female have a lower status than male in the culture of masculinity. On the other hand, man is obliged to have his own career and positions of power in organizations are usually held by men. In addition, the business environment in this culture is relatively competitive (Ferraro, 2002; Hofstede, 1983; McSweeney, 2002).

3.5.4 Dimension of High and Low Uncertainty Avoidance

This dimension reflects the individual's response to insecurity and ambiguity in society (Hofstede, 1983). The individual in the high uncertainty avoidance culture has a strong need to avoid uncertainty and ambiguity in organizations. The uncertainty avoidance dimension has a relatively high acceptance of the uncertain and ambiguous organizational environment.

3.6 Organizational Level of Cultural Differences

As we mentioned earlier, there is a high performance failure rate in the M&A space. One of the most important factors in failure is the inability to integrate organizational cultures in a reconciling way (Styhre, Borjesson, & Wicicenberg, 2006). Therefore, organizational culture is naturally always considered in MandA culture research, as, Chatterjee, Lubatkin, Schweiger and Weber (1992), Olie (1994), Cartwright and Cooper (1995), Weber, Shenkar, and Raveh (1996), and Empson (2001), etc.

Elliott Jaques (1951) defined organizational culture as “the habitual and traditional ways of thinking and doing things” and “Culture is second nature to those who have been with the company for some time”. Subsequently, other researchers have expanded this definition around practice, values, norms, gender perspectives, etc. (Smircich, 1983; Willmott, 1993; Gherardi, 1995). The research is the collective form of beliefs, traditions, and prospects among members of the organization that is created, discovered or established while educating to manage their organizational problems, external variations and internal integration (Schwartz & Davis, 1981; Schein, 1984). The characteristic way of the group perceives the organization, environment and its norms, roles, and values as they exist outside of the individual, and the expression of the allocation of material resources (Schwartz & Davis, 1981; Schein, 1984; Triandis, Vassilou, Vassilou, Tanka, & Shanmugan, 1972; Triandis, 1977). It includes organizational protagonists, taboos, business rites and rituals, perceptions of the "Mecca", leadership styles and orientations, mental frameworks, behaviors and problem solving, the allocation of resources between different classes (Deal & Kennedy, 1982; Pettigrew, 1979; Smircich, 1983; Wilkins, 1984; Litterer, 1978; Peters, 1980).

In each case of cross-border M&A, the target and acquiring companies have their own organizational cultures and there is an organizational cultural distance in terms of values, norms and activities. Organizational cultures, which are very probable to be represented in values, self-images, Labor standards, organizational practices and power structures in companies (Nummela, 2004, p. 89). Here we use the cultural web to shed light on possible changes in the organizational culture. The cultural network is a summary that shows “the behavior, physical and symbolic manifestations of a culture that inform and are informed by an organization's taken-for-granted assumptions or paradigms” (Jonson, Scholes, & Whittington, 2008, p. 197). It includes seven elements, namely paradigms, routines, rituals, stories, symbols, power structures, organizational structure, and systems of control.

Paradigm is a prototype of people’s saying and doing in an organization, which applies collective experience to a given situation (Jonson, Scholes, & Whittington, 2008).

Organizational structure is a management style and communication style taken into a routine. Routines are organizational specific working style as a model that employees

can follow on day-to-day business. Rituals are significant and representative activities or event from the organization's point-of-view. Stories are the legends told as an organization's history carrying important personalities of a group. Symbols of the organization comes in different forms from objects, event, acts to people that are recognizable by employees. Power structures defines the top executive management directly related to core decisions and beliefs. Control systems is a measurement system of performance and accomplishments, corresponding to organizational reward system. It carries an underlying representation of worker's status level within the organization.

3.7 Personal Level of Culture Differences

During integration, the way employees respond to the new organizational structure, environment and mission is strongly influenced by culture (Bijlsma-Frankema, 2001). Negative employee reactions are generally associated with culture shock (Buono & Bowditch, 1989; Chatterjee, Lubatkin, Schweiger & Weber, 1992; Nahavandi & Malekzadeh, 1993; Cartwright & Cooper, 1995; Brock et al., 2000; Buono et al., 1985), and then the value of the acquiring company's shares will fall (Chatterjee et al., 1992), eventually there will be weakened operation of the whole company. Furthermore, Carey (2000) suggested that some mergers of a particular culture lead to cultural ambiguity, confusion, and hopelessness among employees. As a result, many scholars such as Cartwright and Cooper (1995), Lubatkin and Lane (1996) considered "the human factor" to be the focus of M&A study integration.

To explain why cultural differences exist at the personal level, Elsass and Veiga (1994) mentioned that the forces of cultural differentiation mean the maintenance of separate cultural identities. Cultural discrepancy is principally described by the theoretical framework represented as part of the social identity theory (SIT) developed by Tajfel and Turner, and in the study of organizational behavior from Ashforth and Mael (Elsass & Veiga, 1994, p. 96). Elsass and Veiga cited that SIT involves four integral processes: categorization, identity, comparison, and distinctiveness (Brown & Ross, 1982). First of all, individuals will classify their world into groups with identities attached. In comparison, the groups to which individuals of another group belong create social identities with the respective distinction.

The factors influencing the outcome of intergroup social identification are social categorization and social comparison, on the basis of which Alsace and Veiga developed that the two main factors influencing the magnitude of the forces of cultural differentiation are perceptions of difference inside and outside the group and the structure of relationships between groups: 1. the awareness of in and out group variances; 2. Structure of intergroup relations (Nummela, 2004).

In Nummela (2004) the culture on a personal level is analyzed with regard to the impact of M&As on employees. Workers' interpretation of the consequences of M&As is mentioned as anxiety, insecurity and stress when relocating or losing a job, as indicated by Lees (2003). In this article, the personnel culture at management level is considered to be heavily burdened by M&As compared to employee level (Nummela, 2004, p. 89). It explains how, in addition to the negative perception employees have, managers can fear the loss of authority from sharing decision-making powers. Also, different leadership styles, organizational structures, organizational relationships, etc. are some of the main elements that slow down the process of cultural integration after M&A agreements, which can lead to negative attitudes.

In addition to the question of the SIT, the ambiguities in the interpretation of the employees during the integration process must be taken into account. In the study by Risberg's (2001) ambiguity approach is used to examine how employees perceive their roles after M&As. This article looks at the human side of M&As from both a top-down and bottom-up perspective. In contrast to the article by Nummela (2004), not only the views of managers are focused, but interpretations of the M&As are examined at all levels (Risberg, 2001, p. 60). The document is useful in that employee-level perceptions of M&A are sometimes ignored or underestimated. In addition, ambiguities should always be taken into account so that companies are not caught off guard when culture shock occurs due to ambiguities. Cross-border M&As also raise another issue, such as people's judgment of other cultures and social platforms. Consequently, such a judgment about culture can lead to significant culture shock (Risberg, 2001, p. 78).

Another issue discussed in this document relates to fear of organizational change and lack of communication. As mentioned above, employees always feel insecure when interpreting changes in organizations as job losses or job relocations. In Risberg

(2001), the lack of communication has a direct correlation causing or facilitating this problem.

4. Discussion Result

After examining secondary sources of existing theories, practical knowledge is reviewed in this discussion section using a case study approach. Specific case study of South Korean global company M&A event is used as the author intends to consider the cultural differences of a foreign company involved in M&A with this South Korean company. Particularly, one primary case study from a real-life example has been chosen. This case study aims to demonstrate the explicit cultural distance (opposite to South Korean culture) and the findings (mixed result of success).

The analysis of the case is structured in four different steps. First section delivers a general understanding of the case including company background information, M&A process method used, and data collected. The second section investigates the cultural distance between the two companies of the cross-border M&A case in three different cultural layers from national, organizational, to personal level. In this section the primary research question of “Intercultural Challenges and Cultural Differences Derived from Cross-Border Post M&A Integration Process” will be discussed.

4.1 Background

The chosen case is for the cross-border acquisition of Magna Steyr Battery Systems (Austrian-based auto parts supplier company) by Samsung SDI co., Ltd. (South Korean company) in 2015, which is a very rare and special integration of dramatic differences in size of two companies. Magna Steyr Battery Systems was the battery pack business division of Magna International, who played a key role in leading global automotive supplier. Samsung SDI is known as a global leader in green energy solutions and electronic materials (Eastern Standard Time, 2015).

Samsung SDI acquired Magna Steyr Battery Systems for three major purposes. Firstly, the acquisition is purposed to provide support and improve the company’s electric vehicle (EV) battery business by expanding the proficiency in battery packs of Magna International (Ayre, 2015). Secondly, the acquisition is a key strategic step for Samsung SDI to strengthen the competitiveness of the automotive battery business and provide new momentum to further develop the business and customer base (Ayre, 2015). Lastly, the acquisition is also intended to help the company secure new customers in China, Europe, and North America (Ayre, 2015).

4.2 Case Analysis on Cultural Difference

4.2.1 Perspective of National level

Below Figure 7 that is referenced from Geert Hofstede's cultural dimension study explores different national culture through the lens of six dimensions model. This overview provides a profound driver of Austrian culture relative to that of South Korea.



Figure 7: Hofstede's cultural dimensions, country comparison of Austria and South Korea.

Observing South Korean cultural dimensions, the power distance addresses the fact that all individuals in societies are not equal. It expresses the culture's attitude towards these inequalities among individuals. With a middle score of 60, South Korea carries a notion of hierarchical society (Country Comparison: Austria & South Korea, 2022). This means that people accept a hierarchical order in which everyone has respective place and requires no further justification for reasoning. The hierarchy in an organization is viewed as a reflection of inherent inequalities, centralization is popular, subordinates expect to be told what to do, and the ideal boss is a benevolent autocrat (Country Comparison: Austria & South Korea, 2022).

In comparison, Austria has a low score of 11 characterizing national cultural style as more independent, less hierarchical with a focus on equal rights, approachable superiors, coaching leaders, and empowering management. Power is considerably decentralized, and experience is valued between managers and team members. Therefore, consultation is anticipated more and control less allowing for closer communication and interactive participation.

The key issue determined by dimension of individualism is the step to interdependence that a society continues among each other (Country Comparison: Austria & South Korea, 2022). It is in relation whether people's self-image is defined in terms of 'I' or 'we' (Country Comparison: Austria & South Korea, 2022). In such individualist societies, people are keen to look after themselves and their immediate family only whereas in collectivist societies, people belong to "groups" that are for them in exchange for loyalty (Country Comparison: Austria & South Korea, 2022).

South Korea is measured as a collectivist society with a result of 18. This is established in a close, long-term attachment to the "group" of members, whether it be a family, extended family, or an extended relationship (Hofstede, 1991). Loyalty in a collectivist culture is paramount and overrides most other social rules and principles. In collectivist societies, fault often leads to shame and loss of prestige, employer-employee relationships are perceived in moral context as if family ties upon hiring and making promotion decisions taking employee's internal group affiliation, and management in leadership groups.

With a value of 55, Austria shows a different more individualistic society compared to South Korea. This demonstrates that there is a strong inclination to loosened social setting, where individuals focus on themselves and direct family members. In this individualist society, offence leads to blame and loss of self-confidence. Employer-employee relationship is purely concentrated on contracts with mutual benefits, where promotions are solely based on merit. Interestingly, management is focused on managing individuals instead of groups in collectivist society.

An excessive score in masculine dimension implies that society is driven by competition, accomplishment, and success, where the success is definite by the best or winner in the field: a value system that originates from school and extends throughout personal career (Hofstede, 1980). In contrary, a low score represents feminine aspect

of the dimension that the dominant values in the society value care for the others and quality of life. In this society, a quality of life becomes the key success factor as spot lighted from the crowd is not admirable (Hofstede, 1980). The fundamental question leads to what motivates people to desire to be the best (masculine) or be satisfied with what you do (feminine) (Country Comparison: Austria & South Korea, 2022). South Korea results 39 points in the second dimension indicating towards feminine society. People in such environment work to live, where managers strive for consensus, individuals value equality, solidarity, and work-life quality. Through negotiations and compromises conflicts are resolved and incentives, namely free time, and flexibility, are widely preferred focusing on the well-being. Once again in opposite score range at 79, Austria is a masculine society based on success driven and resolving conflicts by fighting them.

South Korea scores 85 in uncertainty avoidance and ranked one of the countries in the world that avoids insecurities by maintaining rigid codes of belief and behavior. In this culture, there is emotional necessity for rules and guidance though they may not be fully functional as people tend to be intolerant of unorthodox ideas and behaviors. Time is considered money leading people to gain intrinsic need to be busy and hard-working. Precision and punctuality are the significant norm besides innovation may be resisted as security is the essential contribution to individual's motivation.

Austria has a slightly lower score of 70 compared to South Korea, which indicates preferences of avoiding uncertainties. Similarly, precision and punctuality are the important norm and decisions are made after detailed analysis of all information available. One specific example that ranked Austria in the top of uncertainty avoidance index is due to the use of academic titles as part of individual names in daily business or life.

Long term orientation is another cultural dimension that describes how each society must maintain connections to its own past while facing the challenges of the present and future, and further societies prioritize these two empirical goals differently (Country Comparison: Austria & South Korea, 2022). Societies with low score preferably remain in the time-honored traditions and pose suspicions towards societal changes. Contrary, those with high scores manage to take pragmatic approach encouraging thrift and efforts into modern lifestyle preparing for the future. At 100,

South Korea marks as one of the most pragmatic and long-term oriented societies. South Korean do not carry a notion of almighty god and not familiar. Virtues and good practices became one of the primary life values of people. In corporate environment, long-term orientation exists in equity ratio prioritizing on steady market share growth instead of a periodic profit. Employees serve for the stability and durability of the companies. This idea derives from companies serving shareholders and the society for the upcoming future generations rather than concentrating on making quarterly profit.

Austria position towards pragmatic culture with a score 60 with a belief that truth is highly dependent on the case scenario basis considering context and time. Austrians are described to be adaptive to tradition and changing conditions.

The sixth element of the Hofstede's cultural dimension is the indulgence. The main challenge facing humanity previously is the degree to which younger generations are socializing as people do not become "human" without socialization (Country Comparison: Austria & South Korea, 2022). This dimension outlines how people control their needs and impulses based on how they were raised. Indulgence defines the weak control culture while restraint describes the opposite with strong control culture.

South Korean society has a low score of 29 representing one of restrain culture carrying a tendency to be cynical and pessimistic to certain extent. Leisure time is not much emphasized and relatively control the satisfaction of their desires. People with this orientation have the perception that their actions are constrained by social norms and feel uncomfortable with self-indulgence. Dissimilarly, Austria is a country of indulgence with a high score of 63. People are more optimistic and generally keen to relieve their impulses to enjoy life.

Comparative analysis of Hofstede's six dimensions summarizes those national cultures of South Korea and Austria are significantly contrasting in cultural behaviors. The highest discrepancy of 49 scores showed in power distance while closest gap of 15 scores was presented in uncertainty avoidance.

Furthermore, South Koreans and Austrians speak different languages. Though English was the main language globally utilized within the company, the need of language skills was enhanced after the acquisition, especially for selective managers involved in the decision-making process.

4.2.2 Perspective of Organizational Level

In this selected case, the culture fit was not reached due to the wide distance between the organizational cultures of Samsung SDI and Magna International was high to certain extent. Many differences between the two organizations were identified.

The organizational structure of Samsung SDI is a hierarchical and structured company and Magna Steyr as well is built on functional based vertical organization. Though both organizations had similar hierarchy in the top sphere of the organizational structure, the power structure was quite different. As a result, the power structure of Magna Steyr had to be adopted to certain extent to collaborate with Headquarters of Samsung SDI located in south Korea. Firstly, the management style was changed upon integration process. Instead of using the original method of positioning all Korean expatriates as top management for each functional departments, Samsung SDI chose a glocalization approach and kept existing local management with only two selective management positions as Korean (management director and head of finance). With selective adaptation of the management style, Samsung SDI had to adapt power structure meet the strong control and reporting culture visible from the working routines of its HQ. Korean management is oriented on top-down approach and Magna Steyr focused more on the group consensus. When it came to decision making process, Samsung SDI made rapid centralized decisions and employees could receive the order immediately from the informal channel to be able to act immediately. However, Magna Style was used to work on formal communications style, such as meetings, where the information was only distributed through those formal channels taking longer time due to time consumption through discussions for reaching consensus (Nummela, 2004). Thus, organizational culture of Samsung SDI had to be modified from slow and formal decision-making and information distribution process to informal yet fast decision process to reach to certain extent.

Additionally, changes in working environment and the atmosphere were significant and not consistent throughout the organization. Certain department, such as R&D, who already had collaboration program experience with Samsung SDI HQ in the past years set up their own identity and was able to continue working. Nonetheless, a group of employees thought the previous working atmosphere in the former Magna Steyr was

better due to the uncertainty and changes occurred by the acquisition and negative attitudes brought from old mindset and reluctant to changes.

4.2.3 Perspective of Personal Level

The first issue raised in the M&A case is feelings of uncertainty for employees. Changes in the management style and enhancement of the position of personnel was executed as aligned upon acquisition phase. However, in practice, various restricting processes were conducted due to the necessity to change in operations. There was discontented feedback in employee's feelings from both organizations. In local Magna Styr perspective, uncertainty was experience due to confusions in system and process integration.

Issues in interaction also rose upon expansion of the organization and knowledge transfer upon collaboration. Lacking communication due to the languages where different understanding logic was the difficulties were the outcome of the interaction. However, the major problem was more on limited information about organization or operations.

5. Conclusion

The final chapter summarizes the aims and related process of generating the master thesis with outcomes that are achieved to subsequent level. Defined hypotheses in the beginning of the research have been revisited, which served in the determination of the further research procedure. The process of cultural differences Furthermore, recommendations for improvement and alternative methodology of the researched area were suggested.

5.1 Research Analysis and Implications

Research analysis is in accordance with the hypothesis that national cultural differences and individual background in the past impacted the most in the phase of M&A integration. However, there are additional implications that secondary factors such as communications and knowledge transfer also lead to the secondary challenges leading to the risk of successful deal result of the M&A of two companies. Furthermore, not only intercultural, and national culture differences generated challenges to the post M&A but also cross functional aspects within the organization were found to be creating gaps through the qualitative research. This implies for detailed and different approach to the cultural challenges in post M&A integration topics.

5.2 Research Contribution

Multiple concerns were raised throughout the thesis. The cultural differences rise from three different layers of the national, organizational, and personal levels. The relationships and the formation of processes involving M&A as well as the people in the field of interests both create values to the research topic of how they are raised. Cultural gaps that have derived from the culture union are examined based on the success example of a case study.

Lastly, the empirical review of the theories and the case study provided interesting outcomes that were identical and dissimilar to the theoretical discussions. Though the research analysis just provides a small insight to the real-life example, but it can contribute to the company and relevant M&A or process integration responsible to gain knowledge based on experience for further integration possibilities. National dimensions studied between two nations can further contribute to the management in

their management decisions or in the act of collaboration and cooperation with Headquarters or overseas affiliates.

5.3 Identified Problems

The study shows several threats to validity. Limitations are acknowledged for the importance to highlight an objective approach to the thesis. Identified problems are categorized in two, mainly internal and external threats.

Major internal limitation was found from the generalization of the research outcomes. A small sample size with a specified real M&A case study creates restrictions collate the discussion results and make implicated to similar case study or those in the different cultural context. This as a result limited validation of the result due to insufficient comparative data. Selection of one specific company, Samsung SDI, from the beginning also created a boundary with constrained sampling of M&A cases as the company is known for establishing a completely new overseas affiliate instead of going through an M&A procedure.

The external threats are directly linked to the literature review chapter, which provides various theories and presented in combination. There is not a single ideal model to cover all the relevant theories in relation to the research question. Thus, it was only applicable to specific contents and in consequence inadequate to formulate and apply for the generic overview. For the empirical review, mainly secondary sources from journals, books and online articles were used which leads to biases in the interpretation of the authors. Furthermore, for the discussion section only one specific South Korean and Austrian M&A case was investigated with a one partial success result. Since comparative analysis with same national culture or in different environment M&A case was reviewed, there are potential criticism for being biases based on selective case.

As one of the research methodologies, the research practiced a qualitative approach for data contribution and analysis section. However, the informal interview with open ended questions generated wide spectrum of answers that are not centralized. Cultural differences were the major scope for the research scope, and this also neglected other factors that could possibly impacting the deal result of the M&A process. Lastly,

limitations in research experience and literature availability specific to two countries chosen added additional problems in the research.

5.4 Recommendations for Improvements

After summarizing the limitation of the research, several recommendations for improvement. Focus areas are in the state of the art and the discussion section, where the most knowledge gap existed in previous theories and practices were identified.

In relation to the fields of different cultural distance layers, from personal, organizational to national levels, there were lack of theoretical information. As the focused cultural distances were generally focused on working level employees, managerial implications, and perspective in the context of cultural differences could widen the data quality. The main findings of the case study were based on individual interpretation of the case study. To explore more on the understanding of the outcome, statistical figures in relation to the impact during the post-merger phase would create improved analysis.

Each layer of cultural distances was reviewed separately, but due to the extensive topics that covers on each level deeper analysis is recommended. While the research analyzed each level separately and recognize that these personal, organizational and national cultures construct different cultural gaps. For this, the questions of how they influence each other in different combinations should be investigated. Furthermore, greater number of sample size for case studies should be considered for improved quality of the research. Looking into different nations, different combinations of the M&A cases would contribute interesting aspects for the review. Qualitative approach was generically better approach for studying intercultural issues instead of quantitative approach, but greater sample size of the interviewers from diverse fields in multiple working level would be recommended to reduce bias and generalization of the findings.

5.5 Hypothesis Evaluation

After analyzing the result of the research question, the finding justifies those national cultural differences between South Korea and Austria contributed to the main changes during M&A integration process. The five out of six dimensions of the Hofstede's cultural differences were proven to be contradicting which have possibly led to

challenges in decision making and operation of the business in the organization. The second hypothesis of discrepancies in organizational structures and the business operation leads to cultural gaps in the post M&A process is partially proven. However, the process integration found out to have underlying later of interactive challenges more than cultural aspects as root cause. Lastly, the third hypothesis was in accordance with the discussion analysis that lack of M&A experience of the examined company did contribute to the cultural challenges in the process of organizational integration.

5.6 Company's Current Situation and Outlook

Samsung SDI Battery systems GmbH, the outcome of a M&A between Samsung SDI and Magna Steyr Battery Systems, has applied a glocalization approach for company integration process. Initially, the research of the case study focused on the national cultural differences between the acquirer South Korea and acquirer Austria for the challenges faced in the initial months directly after the M&A referred as the aftermath of integration design phase of the cross-border M&A process. Following years into integration execution phase, the organization went through system and process amalgamation with the base system from the Samsung SDI HQ and integration of local standards and procedures to meet the ongoing business scope and operations.

In 2022, seven years in the post M&A process, the company has overcome the organizational cultural differences derived from national culture gaps. Nevertheless, due rapidly changing automotive markets in e-mobility, customers are increasing demanding being aggressive from all aspects from quality (specifications), cost (accessibility) to delivery (time). This as a result bring additional challenges to the organization on a microlevel. For example, the differences are now deriving from working from program organizations within the working environment, which further brings in knowledge transfer and understanding gaps on cross-functional levels.

In parallel, the company is going through other transitions in the business section from manufacturing and product development plant to purely Research and Development (R&D) center. These two combinations of transitioning markets and the business change is the upcoming difficulties yet turning into new opportunities to the company. Though personal level insecurities remain, and unknown challenges are expected, the local management and the executive at HQ are bringing more attention to the customer

relationships not only external but internal to make further success in the long run post-M&A phase. Overall situations are expected to create additional contributions to the future research in the cross-border M&A and intercultural differences. With additional primary and secondary studies from the recent years will allow more depth understanding of the theories and changes in the business market in contemporary era.

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List of Abbreviations

HQ Headquarter

M&A Mergers and Acquisitions

OEM Original Equipment Manufacturers

PMI Post-Merger Integration

R&D Research and Development

SIT Social Identity Theory

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