MANAGING CROSS-BORDER ACQUISITIONS

Niina Nummela & Mélanie Raukko (eds.)

Sarja/Series KR-1:2010

Turun kauppakorkeakoulu
Turku School of Economics
Despite their high failure rate, cross-border mergers and acquisitions (M&As) have become increasingly part of the everyday businesslife. The year 2007 was a record year in terms of both amount and value of M&As. As mergers and acquisitions are sensitive to the business cycle, the amount of M&As slumped following the economic crisis. However, based on recent statistics it seems that the M&A activity is increasing again.\textsuperscript{1} Consequently, cross-border M&As remain a topical research subject in an ever changing market environment.

Research on M&As is very lively and versatile at Turku School of Economics, and spans across departmental boundaries from international business to accounting and finance. The multidisciplinary approach is one of our major strengths. This book is the outcome of extensive M&A research in Turku School of Economy and a Tekes funded research project called ManMAP\textsuperscript{2} (Managing the M&A process – from opportunities to new business creation). This book is based on the contribution of post-doctoral and doctoral researchers as well as undergraduates.

This book follows a previous volume called “Many faces of cross-border mergers and acquisitions” (ed. Nummela), and focuses similarly on the complexity of cross-border M&As. This book contemplates M&As from various angles and the articles in this book cover both the pre- and post-acquisition phase. This book is divided into three parts; 1. Preparing for the M&A, 2. Managing the functional integration, and 3. Managing the cultural integration.

The first part “Preparing for the M&A” comprises two very interesting articles. The article of Tiia Kuusimäki highlights a critical issue in the pre-acquisition negotiations, why companies walk away? Based on the results deal breakers can be grouped in three groups based on their significance: complete deal breakers, adaptable deal breakers and no consensus deal breakers. Consequently, a deal breaker doesn’t always lead to the termination of the negotiations. The article of Annica Weissenfelt examines the regional


\textsuperscript{2} ManMAP is a Tekes funded project, in which Turku School of Economics collaborated with VTT. For more information on the ManMAP project please visit www.vtt.fi/manmap
differences of cross-border acquisitions. Her findings indicate that there are regional differences regarding the pre-acquisition process, motives and the ownership structures of the acquisitions. When it comes to cross-border M&As, companies need to have flexible M&A processes in place adaptable to the regional differences.

The majority of the articles are focused on the post-acquisition phase. Part two deals with “Managing the functional integration” such as HR integration or customer retention and also with issues related to trust. Erkki Vuorenmaa’s article focuses on trust in M&As. His paper analyses unity development in a distrusting context by examining a hostile post-acquisition integration process between two global companies. The article of Hanna-Mari Planting is also tackling human resource management in cross-border acquisitions. Her study contemplates human resource (HR) issues from the HR function and HR managers’ perspective. In her article, she presents a model on how to manage the HRM activities during the post-integration phase. Finally, William Degbey is, in his article, widening the perspective from inside the company to outside, to the network. His article is focusing on customer retention and the relational forces.

Finally, the third and last section “Managing the cultural integration” is focusing on the cultural challenges related to cross-border acquisitions. Cross-border acquisitions are often more challenging than domestic ones due to the geographical distance and cultural issues. In this book three articles are focusing on the cultural issues in M&As. Johanna Raitis focuses on her article on employees’ perceptions and reflections on the post-acquisition integration. Niina Nummela and Mélanie Raukko’s article is a conceptual article, which main focus is to define and clarify the concepts related to cultural integration in cross-border M&As. Finally, Santeri Mäkinen’s article is about managing the cultural challenges in cross-border M&As. His article is about the post-acquisition integration between a western multinational company and a Chinese company.

We want to warmly thank Turku School of Economics, Tekes and the Finnish Foundation for Economic Education for their financial support. We wish also to express our warmest gratitude to Auli Rahkala for her contribution in editing and giving the final touch to this book. We are also very grateful to the TSE Publication Committee for allowing our contribution to be published in the publication series of the university.

Turku, December 2010.

Mélanie Raukko
Niina Nummela
TABLE OF CONTENTS

Preparing for the M&A

Tiia Kuusimäki
WALKING AWAY DURING THE PRE-ACQUISITION PHASE ........................................ 7

Annica Weissenfelt
REGIONAL DIFFERENCES IN STRATEGIC CROSS-BORDER ACQUISITIONS:
PRE-ACQUISITION PROCESS, MOTIVES AND OWNERSHIP STRUCTURE .......... 31

Managing the functional integration

Erkki Vuorenmaa
FROM HOSTILITY TO TRUST – CREATING UNITY USING FORMAL CONTROLS
IN A DISTRUSTING CONTEXT ........................................................................... 61

Hanna-Mari Planting
HUMAN RESOURCE MANAGEMENT IN CROSS-BORDER ACQUISITION
PROCESS – VIEWPOINT OF HR RESPONSIBLE IN ACQUIRING COMPANY ....... 93

William Y. Degbey
CUSTOMER RETENTION IN CROSS-BORDER ACQUISITIONS: EMPIRICAL
PERSPECTIVE ON RELATIONAL FORCES IN A BULK LIQUID DISTRIBUTION
(BLD) COMPANY ............................................................................................ 119

Managing the cultural integration

Johanna Raitis
POST-ACQUISITION INTEGRATION PROCESS FROM THE EMPLOYEES'
PERSPECTIVE: THE MEANING OF TIME IN THE PROCESS? ............................. 141

Niina Nummela and Mélanie Raukko
CULTURAL INTEGRATION IN CROSS-BORDER ACQUISITIONS. A BRIEF
OVERVIEW TO KEY CONCEPTS ...................................................................... 157

Santeri R. Mäkinen
MANAGING CULTURAL CHALLENGES IN CROSS-BORDER ACQUISITIONS:
CASE STUDY ON POST-ACQUISITION INTEGRATION OF MNC AND CHINESE
FAMILY-OWNED COMPANY .............................................................................. 177
WALKING AWAY DURING THE PRE-ACQUISITION PHASE

Tiia Kuusimäki

Abstract

Despite the frequency of mergers and acquisitions and the vast amount of research, only less than 25 percent of the transactions achieve their goals in general. Acquisition processes are also terminated already before the transaction contract is even signed. Accordingly, by understanding also the other side of the coin in addition to the success stories, the outcomes of mergers and acquisitions could be improved. Therefore, the purpose of this research was to understand the acquirers’ walk-away actions from the pre-acquisition phase and the factors underlying this procedure. The findings indicated that there are two major phases during which the pre-acquisition phase is most likely to be terminated: either during due diligence or during the final negotiations. Based on the results deal-breakers can be divided into complete or adaptable deal-breakers. Strategic fit is among the most important motivation behind the deal, and falls under the complete deal-breakers. On the other hand, results on cultural differences were inconclusive. The possible causes behind the walk-away actions are numerous but frequently it is several factors together and the general feeling which are decisive. In addition, the usage of the walk-away price as a management tool is not employed in practice to the same extent than it is suggested in the literature. However, the acquirers are well aware that there is always a risk that the pre-acquisition phase breaks down.

Key words: Acquisitions & mergers, negotiation, due diligence, business failures, walk-away price

---

1 This article is based on the findings of the M.Sc. thesis of the author at the Turku School of Economics.
1 Introduction

1.1 Purpose of the research

Despite the fact that the world is undergoing the consequence of the financial and credit crisis, it is suggested that in 2010 one out of five companies is planning to acquire a business with sales of more than EUR 500 million (Kronimus, Roos & Stelter 2009). However, despite both the huge value and considerable number of mergers and acquisitions (M&As) presented in the statistics only less than one quarter of M&As achieve their targets and goals (Marks & Mirvis 2001, 80). Moreover, the decisions concerning these transactions are unfortunately often characterized both by an overestimated price, a poor evaluation of a target and wrong assumptions underlying the appropriateness of the time for this kind of action, and the aspects of these disappointing acquisitions are only rarely discussed openly (Marks & Mirvis 2001, 80; Haspeslagh & Jemison 1991, 5). Nevertheless, these conversations concerning M&A failures should be considered closely because the concept ‘failure’ is frequently understood to mean the results not achieved instead of a formal breakdown of the process (Pack 2002, 153). In addition, it is worth noting that even if the year 2007 represented a peak in M&A activities, there has never before been such a great number of walk-away attempts from these transactions (Aquila 2008, 3–4).

The companies which have carried out successful acquisitions are characterized among other things by the following factors: they have experienced deal teams, they always set a walk-away price and they are prepared to walk away from a deal if it is no longer sensible. The walk-away price refers to the highest acceptable price which an acquirer is willing to pay for a target. After the price exceeds this predetermined level, the acquirer should leave the negotiation table. (Cullinan, Rovit & Tymms 2003, 181–182.) Nevertheless, after an exhaustive analysis and evaluation of the target company, the deal is difficult to resist, and the money and time which have already been invested in it only hinder this decision (Cullinan, Le Roux & Weddigen 2004, 97). It has been suggested that it is more an exception than a rule that the executives would change their mind during the acquisition process (Bogan & Just 2009, 938–942).

So far the studies have focused both on financial (e.g. Angwin 2007; Officer 2003), strategic (e.g. Bower 2006; Marks & Mirvis 2001), behavioural (e.g. Bogan & Just 2009; Ang, Cheng & Nagel 2008), operational (e.g. Wilkinson 2007; Cullinan et al. 2004) and cross-cultural (e.g. Fang, Fridh & Schultzberg 2004; Erkkilä 2001) aspects of M&As, and on the question of how to manage problems arising from these aspects (Cartwright & Schoenberg
Negotiations and their problems, in turn, are a popular research topic among the organizational and behavioural academics (e.g. Hendon, Hendon & Herbig 1996; Dupont 1991), and so far the emphasis of the studies concerning acquisition negotiations has been placed on the outcome of the negotiations (Saorín-Iborra 2008, 285). Nevertheless, generally acquisition negotiations have received little attention despite the fact that they are vital for a company’s successful business; the importance of the pre-negotiation phase is generally agreed but the underlying literature is frequently prescriptive, that is to say, giving a list of major points. However, by understanding the negotiation process, the outcomes of M&As could be improved and, thus, the failure rates could be decreased. (De Mattos, Salciuviene & Pugliese 2008, 247, 249.)

The purpose of the research was to understand acquirers’ walk-away actions from the pre-acquisition phase and the factors underlying this procedure. The sub-objectives were: (1) to describe in which stage of the pre-acquisition phase acquirers can still walk away, (2) to explain the reasons for these walk-away actions, and (3) to describe how acquirers prepare for possible deal breakers and walk-away actions. The focus was on the pre-acquisition phase and, even more precisely, on the process occurring from the acquisition negotiations to the announcement of the deal. Because M&A transactions proceed only rarely according to some fixed rules (Picot 2002a, 18), the research was not limited to any transaction type, for example, either to an auction or to a bilateral negotiation situation. Furthermore, the research was not limited to any line of business because in general it can be argued that, for instance, the pre-acquisition phase in the electronics or in the food industry does not vary substantially. On the contrary, it was the expertise of the employees involved in M&As which was more notable to the research. Nevertheless, the research was limited only to the acquirers’ points of view.

In order to build up the theoretical framework, different fields of academic research were examined. Firstly, with the assistance of the management literature the process perspective of M&As could be understood. Secondly, the finance literature was required in order to reveal the disciplines both behind the valuation of the target company and behind the determination of the walk-away price. Thirdly, the organizational literature gave insights to acquisition negotiations. The next section will define the key concepts more in-depth.

1.2 Key concepts of the research

M&As. An acquisition refers to a situation in which two companies of different sizes and different qualities combine (Jagersma 2005, 14). A merger,
in turn, refers to a combination of equal firms, and the process is executed unanimously between the corresponding firms (Welch 2009, 877; Jagersma 2005, 14). In practice the boundaries of these terms have become blurred, and they are used as referring to the same phenomenon (Welch 2009, 877; Angwin 2007, 385).

Pre-acquisition phase. The process perspective has gained attention to a considerable extent, and there are several points of view on how the acquisition process can be described (e.g. Picot 2002a; Marks & Mirvis 2001; Very & Schweiger 2001; Jemison & Sitkin 1986). The cornerstone of this research is the division presented by Marks and Mirvis (2001, 81) who state that within the acquisition process three different phases can be distinguished, namely pre-acquisition, combination and post-acquisition phases. This research focused only on the pre-acquisition phase during which for example the following activities take place: external advisors are hired, due diligence is carried out, the target company is valued, negotiations take place, the bid is formed, the formalities for the regulatory regime are prepared, and the commitment towards the acquisition decision increases (Carbonara & Rosa 2009, 94; Pablo, Sitkin & Jemison 1996, 734).

Acquisition negotiations. The negotiation is a voluntary situation in which parties alter both their expectations and their objectives in order to achieve the necessary agreement (Ghauri 2003, 3). Accordingly, negotiations are periods of time during which the issues uncovered in the due diligence process are given explanations, the price is agreed, and the potential deal breakers are in a favourable outcome overcome (Angwin 2007, 402).

Walk-away price and walking away from the deal. The walk-away price describes the highest price which an acquirer is willing to pay for a target (Cullinan et al. 2004, 103–104). It can also be understood as the point after which the deal is not any longer feasible in financial terms for the acquirer (Angwin 2007, 399). The challenge with the walk-away price is that in order to be a meaningful and useful tool during the acquisition process, the acquirer must be willing to walk away after this point (Cullinan et al. 2004, 103–104). Furthermore, the concepts ‘to walk away from the deal’, ‘to terminate the pre-acquisition phase’, and ‘the breakdown of the pre-acquisition phase’ are used interchangeable in the discussions (e.g. Bernstein 2008; Morrison, Kinley & Ficery 2008; Cullinan et al. 2004; Bates & Lemmon 2003). Therefore, these were used as synonyms also in this research even though it can be argued that minor nuances of meaning exist.

---

2 Marks and Mirvis (2001) prefer the terms ‘precombination’, ‘combination’, and ‘postcombination’. Nevertheless, in this research only the terms ‘pre-acquisition’, ‘combination’, and ‘post-acquisition’ were employed because of their descriptiveness.
2 Theoretical background

2.1 Examination of a target company

One of the major challenges faced by the executives planning an acquisition is the collection and analysis of the information on a target’s assets and liabilities, on its future revenues and costs, and on its investment needs (Very & Schweiger 2001, 13). This procedure can also be described as a due diligence process. Due diligence is carried out in order to ensure that the target company and its risks and possibilities actually correspond with the acquirer’s perceptions on them (Blomquist, Blummé, Lumme, Pitkänen & Simonsen 2001, 9, 19). Thus, the due diligence process together with the valuation provide the framework for a closer examination of a target company (Gaughan 2005, 159).

Due diligence might reveal both pleasant and unwanted surprises (Cullinan et al. 2004, 98–103). It is even suggested that it would be unusual if there was no surprises at all arisen during the process (Wood & Stevenson 2007, 166). In consequence, as a result of due diligence the acquirer may decide to preclude proceeding with the acquisition transaction (Kaden 2009, 5). The detection of these deal breakers, for example, ongoing litigation, puffed up financial accounts, weak cash flows, unethical practices, need for substantial future investment, tax contingencies, and inaccurate inventory assessment, may be worth of money as it can also raise concerns about the competence and trust of the target management (Angwin 2001, 36; Aiello & Watkins 2000, 104). Nevertheless, it is noted that due diligence is frequently rushed and undertaken with undue time pressure (Whittington & Bates 2007, 38). Moreover, it is also expressed that the lack of information is frequently a cause behind the failure of negotiations (Ghauri & Usunier 2003, 462). Apart from these, it is argued that a deal which is terminated during due diligence phase almost always is terminated for the right reasons (Aiello & Watkins 2000, 103). In conclusion, nowadays the role of due diligence as a contributor of a successful acquisition process has become widely recognized (Carbonara & Rosa 2009, 94).

A central problem both of the acquisition process and of the negotiation phase is to determine the purchase price (Picot 2002a, 22; 2002b, 71). Some deals can be good acquisitions at one price but not any longer at another price, or some deals cannot be described good deals no matter the price level (Gaughan 2005, 159). The determination of the purchase price is frequently understood to be related to due diligence because with the assistance of due diligence, the acquisition parties get a comprehensive view on the value of a deal (Boeh & Beamish 2007, 182). Nevertheless, the aim of due diligence is to obtain a complete picture of the target company at the present moment and, in
principle, due diligence is less focused both on the probability of future events and on their effects on the target company. Accordingly, there is basically a clear distinction between the due diligence exercise and the valuation of a company. (Pack 2002, 178–179.) In addition to the discussions on the linkage between due diligence and the value determination, the connection between the value of the company and the purchase price must also be considered because there is a difference between them; the corporate value is a basis for the purchase price but the purchase price takes also the future trends and prospects into consideration (Picot 2002b, 71).

When an acquirer evaluates the purchase price, a walk-away price should also be determined (Cullinan et al. 2004, 103–104). However, without few exceptions (e.g. Angwin 2007), there is a lack of research underlying the determination of the walk-away price. In order that the walk-away price would be a meaningful and useful tool during the acquisition process, it is crucial that the negotiation team is aware of it and of its concrete value (Carbonara & Rosa 2009, 95). Furthermore, according to a study, the executives consider that the decision of walking away is one of the most difficult decisions to execute, and a third of 250 senior managers interviewed admitted that they had not walked away from deals even if they had some concerns concerning the deal (Elton & Weddigen 2006, 5).

2.2 Contractual negotiations

The commencement of negotiations means that both the concepts of trust and good faith, and various legal details must be observed. These aspects are crucial both for the implementation of the deal and for the protection against the claims in the event of a breakdown in negotiations. To overcome these uncertainties arising during the negotiations, the parties may compile preliminary contracts. The objective is to write down points of negotiations which may have been discussed earlier in order to include them in the prior negotiations. (Picot 2002b, 62–63.)

First of all, in order both to ensure confidentiality and to guarantee that the knowledge received is not used in disadvantage of the other party, a confidentiality agreement, also known as a non-disclosure agreement or a statement of non-disclosure, is signed (Picot 2002b, 62–63). However, the protection offered by the confidentiality agreement should not be trusted too much. Accordingly, it is suggested that the most crucial and important information is not revealed until the transaction contract is signed or, at least, not until it is sure that the deal is going to be carried out. Nevertheless, the
challenge is to determine the phase after which the acquirer cannot withdraw from the deal any longer. (Wilkinson 2007, 178–180.)

Secondly, a Letter of Intent is signed in order to state the intention of reaching a legal result, for example, the transfer of a company or a part of its business. Because cross-border M&As involve several legal systems, there is no possibility of defining the Letter of Intent universally. In order to avoid possible misunderstandings, it is frequently stated separately in the document whether the statements are legally binding or not. Generally, the Letter of Intent does not yet put parties under a contractual obligation but the legal positions of the negotiating parties are noted. (Picot 2002b, 63–64.) Accordingly, this document does not prevent parties from changing their minds during the acquisition process but it does offer a moral obligation (Wilkinson 2007, 180). Another frequently used preliminary contract is a Memorandum of Understanding (Picot 2002b, 64). There are misunderstandings concerning the content of the document because the Letter of Intent and Memorandum of Understanding can also be understood as similar documents (e.g. Wilkinson 2007, 180). Nevertheless, the aim of the Memorandum of Understanding is to guarantee that the main contract is completed (Picot 2002b, 64).

After the preliminary contracts have been agreed upon, the focus can be moved both on due diligence and on formal sale documents (Wilkinson 2007, 182). A term sheet is an ever-changing document which is at the center of negotiations. Broadly defined, the term sheet is the informal version of the final transaction agreement (Boeh & Beamish 2007, 183).

### 2.3 Possible pitfalls during the negotiation phase

There are five major factors which affect negotiations: (1) conditions of the negotiations, (2) negotiation situations, (3) negotiators’ characteristics, (4) cultural differences, and (5) outcomes of negotiations (De Mattos et al. 2008, 249–250; Reynolds, Simintiras & Vlachou 2003, 237). Nevertheless, the fifth point was excluded from this research because only the terminated acquisition processes were of interest.

Firstly, the conditions of the negotiations include negotiation styles and motives for carrying out the acquisition. It can be argued that all acquisition negotiations are competitive in nature at least to some extent – otherwise there would not be problems associated, for example, with an information asymmetry, the topic which has been paid attention to a considerable extent (e.g. Parvinen & Tikkanen 2007; Qiu & Zhou 2006; Bates & Lemmon 2003). A competitive negotiation implies that the information is collected mainly for
one’s own purposes and, accordingly, some selected information may not be revealed at all to the other party (Saorín-Iborra 2008, 286–287). Information asymmetries, in turn, are understood to mean the situations in which the parties have different amounts of information and of different quality (Parvinen & Tikkanen 2007, 770). Furthermore, the motives for carrying out the acquisition were relevant for this research because initial motives can have an effect on the considerations of how reluctant the executives are to walk away from the deal. For instance, the acquisitions carried out because of the overcapacity on the markets tend to be one-time events which make it even more difficult to reject the deal (Bower 2006, 21–23). Overall, even though the importance of the price and finance is broadly discussed and recognized in M&A literature (Very 2009), it is the strategy which is the fulcrum of every acquisition. Accordingly, a cross-border acquisition is most importantly a strategic decision instead of a financial decision (Jagersma 2005, 17).

Secondly, under the topic ‘negotiation situation’ themes including the issues of time pressure, and information and incentive asymmetries can be discussed. Time pressure can be understood as a desire or a requirement to end the negotiation process as quickly as possible. In acquisition negotiations, time pressure is caused to a large extent both by the need for secrecy and by the perception of time availability. (Saorín-Iborra 2008, 285–290.) It is exactly the intensive personal involvement, time pressure and tensions which hinder the willingness of walking away from a deal (Angwin 2000, 11; Jemison & Sitkin 1986, 151). Thus, the momentum is not actual deal breaker but it complicates the already difficult walk-away decision. Nevertheless, the momentum can also be discussed more through a risk perspective. That is to say, a risk averse person is willing to engage more people into the acquisition process because then the responsibility of a failure or poor outcome is more difficult to address to one specific person, or the risk averse decision-makers might postpone risky decisions of the pre-acquisition phase to such an extent that, for example, the negotiations break down. (Pablo et al. 1996, 723, 733–737.)

Incentive asymmetries are understood to refer to the conflicting interests of the acquisition parties regarding the transaction, and it is closely linked with the concept of information asymmetries. These incentive asymmetries can be regarded as a reason for the commencement of the acquisition processes which would not be started without this uneven information and which should not be started at all. Furthermore, because of information asymmetries executives may decide to engage in negotiations with distorted views. (Parvinen & Tikkanen 2007, 759, 768–773.) Accordingly, these asymmetries can also act as deal breakers. Moreover, in the context of due diligence it was argued that one of the most challenging matters can be to gain the access to information. However, all information which is required is not factual. Nevertheless,
walking away from the deal because of some “soft” issue, such as nationalistic sentiments, is even harder compared to the situation when there are “hard” facts to support the decision. (Erkkilä 2001, 69–74.)

Thirdly, when talking of negotiation pitfalls, the negotiators’ characteristics and cultural differences cannot be overlooked. To begin with, the walk-away decision can have an effect on the managerial reputation – if an executive is able to finalize the acquisition, it is frequently associated with the positive leadership whereas a failure in the completion of the acquisition deal is seen as negative (Angwin 2000, 12). This not only supports the difficulty of walking away but also suggests that it is easier to stay determined and not to change the mind during the acquisition process (e.g. Pablo et al. 1996, 733; Jemison & Sitkin 1986, 155). Accordingly, it can be argued that only experienced acquirers are able to walk away because they are not that sentimental towards the deal (Erkkilä 2001, 74). Furthermore, the acquisition process should be characterized by clear decision-making roles and responsibilities in order to guarantee that there is someone whose decisions matter in the final instance. Accordingly, almost all successful deal-makers devote to the shaping of acquisition teams. (Cullinan et al. 2003, 181–183.)

In general, cultural differences as a cause of acquisition failures can be understood to include several issues. For example, the most important causes behind the acquisition failures are differences both in values, in corporate cultures, and in management methods. Nevertheless, the opinions on the significance of the geographical distance to acquisition failures vary. (Erkkilä 2001, 37–38, 44.) Accordingly, cultural differences offer a far-reaching explanation for unsuccessful M&As. It is even argued that culture is a crucial factor in the acquisition process but its importance as an essential contributor is frequently overstated. In other words, cultural problems are an easy explanation for all problems occurred during the acquisition process and other explanations are not even searched for by the researchers. (Vuorenmaa 2006, 90.)

2.4 Preparing for deal breakers

In addition to the challenge of negotiating the purchase price, the agreement upon contractual warranties is another concern during the negotiations (Picot 2002a, 22). Within the termination clauses two aspects may be distinguished depending on who is the payer in the case of a breakdown. On the one hand, the term ‘target termination fee’ is used if the target company’s actions are the cause of deterring the acquisition process and, thus, the target has to pay the compensation for the bidder. On the other hand, the clause which obliges the
bidder to pay the compensation for the seller is referred as a bidder termination fee. (Officer 2003, 436.) Nevertheless, in practice the usage of termination fees is challenging: neither the seller nor the acquirer wants to be tied to the party who can bring the acquisition process to an end for a specious reason (Wilkinson 2007, 181–182). As a rule, the less there is information and data available for the acquirer, the more there will be guarantees, warranties, and liabilities in the contract (Picot 2002b, 65).

It is stated that warranties are used to a large extent because the deal-makers are in a lack of time and resources in order to be able to carry out due diligence precisely enough. Moreover, warranties may offer protection at the time of deal-making, but they are not a guarantee of the success in the future. (Angwin 2000, 17.) In addition to the legal tools, there are also issues for which it is impossible to be prepared by legal terms, for example, cultural differences. For instance, there is no point to commence the negotiations if the basic interests, objectives, and behavioural norms of the partner’s culture are not scrutinized beforehand (Ghauri & Usunier 2003, 462–463). Consequently, the planning is the most significant single factor determining the success or failure of the negotiations (Hendon et al. 1996, 90–91).

3 Conducting the empirical study

This research utilized qualitative research methods because the purpose was to understand the termination of the pre-acquisition phase and the factors underlying this action. Furthermore, the data collection was based on expert interviews. The expert interviews were chosen as the data-gathering technique due to several factors: First of all, there are no written documents on the terminated acquisitions and deal breakers, or at least, they are publicly unavailable. Therefore, the usage of existing documents as a primary data source was impossible. Secondly, the walk-away action is difficult to observe because it always happens as some kind of a surprise – naturally the ultimate aim is to complete the acquisition and avoid the deal breakers. Accordingly, the walk-away actions are difficult to understand outside their natural sceneries and without the individuals who either have been or are at the moment a part of these sceneries. Thirdly, it was believed that it is the M&A experts who have unique knowledge on the terminated acquisitions, and this knowledge is accessible through verbal connection.

In conclusion, five expert interviews were carried out and the experts were chosen by using a convenience sample (Kuusimäki 2009). The interview situations were based on a semi-structured question framework. The background questions were related to the interviewees’ positions, roles, and
careers. The questions relating to the pre-acquisition phase and acquisition negotiations covered the discussions both on the process aspect and on the possible deal breakers. The last section, the questions relating to the walk-away action, was focused on the walk-away decision-making and on summarizing the earlier sections. All interview questions were open-ended. Moreover, in order to get a comprehensive view on the matter, the focus of the questions was not on any specific acquisition.

4 Results

4.1 Timing of the walk-away action and acquisition negotiations

Within the phases during which the pre-acquisition phase is most likely to be terminated, three different elements could be distinguished: (1) during due diligence, (2) during the final negotiations, and (3) between the signing and closure of a deal. First of all, the importance of due diligence as the phase during which the possible surprises are discovered was noticed by all of the experts. Due diligence was described both as a two-phase process and also as a general concept taking place somewhere between the preliminary contracts and the final agreement. Nevertheless, none of the experts did suggest that due diligence could be done as a post-acquisition audit. On the contrary, it was emphasized that the final decisions and conclusions cannot be made before due diligence is completed and its results can also be considered, or at least they should not be done that early.

Secondly, the disagreements over the final terms in the transaction contract can result in the termination of the pre-acquisition phase. It was noticed that the success of negotiations is to a large extent dependent on the capabilities and skills of the negotiation parties. This means that the acquirer must be aware both of its own limits and possibilities and also of the seller’s ones. This frame of limits and possibilities was demonstrated as ‘a playing field of negotiations’: The acquirer can create a table in which there is listed the elements which are the most important both for the acquirer and for the counterparty. In this list, there is then defined what is the favourable, acceptable and fall back level for each element. The fall back level is understood to mean the level under which that certain element cannot go or otherwise it becomes a deal breaker. The main idea behind this playing field is that after the acquirer has learned what is the most crucial for the counterparty, the acquirer will be able to bend with its own requirements and, thus, win some elements which are crucial for it. Moreover, it can be argued that in order to be able to play this playing field, a negotiator must have experience.
In addition to negotiators’ skills and capabilities, the negotiation tactics were also discussed. There seemed to be some kind of a consensus that the capability to get the seller to accept the price offer is affected by the negotiation tactics to some extent. Furthermore, it was argued that it is important that the negotiators negotiate deals as representatives of the acquirer, not as personal acquirers. In conclusion, it was pointed out quite clearly that all kinds of so called 'take-it-or-leave-it packages' prepared by the seller do not meet the requirements of the acquirer. Therefore, the significance of negotiations as a cause of acquisition successes and failures is notable in particular if it is considered that there are no 'turnkey acquisitions'.

There was an agreement that preliminary contracts are used when entering into the acquisition process but the contract terms and the content of the agreements are subject to companies’ own interpretations. Therefore, the terms Letter of Intent and Memorandum of Understanding were both used, and there was no clear distinction provided for them. Moreover, there was also a consensus that preliminary agreements are always understood as non-binding in nature without even moral obligations. Lastly, the third point, the walk-away action taking place between the signing and the closure of the deal, was overlooked because it fell outside the scope of the research.

4.2 Deal breakers during the pre-acquisition phase

The role of due diligence in order to find anything unexpected or surprising in the target company was noticed to be significant. There were interesting views on the possible surprises found during the pre due diligence: First of all, market due diligence should not reveal anything surprising because the analysis of the market position and the knowledge on the market in general should have been done already before entering into the acquisition process. Secondly, financial and legal due diligence may be overlapping, and they may, on the contrary to market due diligence, disclose surprises. Moreover, this was also the area in which cultural differences between western, developed countries and developing countries matter. For instance, the issues concerning the property of land and tax liabilities are observed to be challenging in Russia. Thirdly, there were some differing opinions regarding the issues exposed in human resource due diligence. On the one hand, it was commented that the key persons who are required to transfer to the new company generally are not the cause behind the termination of the pre-acquisition phase because these matters can be settled in a way or another. On the other hand, it was also expressed a view that the continuity of the old management, in particular if the company to be acquired operates in service business, is
extremely important. Fourthly, it was noted that synergy due diligence is in a way simpler procedure because there either are synergies or then there are not.

It could be understood that possible deal breakers should be uncovered as early as possible because, if otherwise, there will be a risk of lack of confidence which can quite easily result in the termination of the pre-acquisition phase. It is worth noting that theoretically the ultimate aim of due diligence is to challenge the mental idea which the target company has created from itself, but when it actually proves to be unrealistic, it is a remarkable obstacle. If this given view on the target company is unreal in particular with the elements that are essential for the acquirer, the process is likely to break down.

It can be understood that differing views on the target company are basically due to information asymmetries. However, the magnitude of information asymmetries varies depending on the counterparties. On the one hand, with the companies which are listed on the stock exchange the information asymmetry is more insignificant due, for example, to the public information and the market value. However, with private companies this kind of information which could verify the observations is not publicly available. Consequently, information symmetries are not deal breakers by themselves but they easily result in the situation which becomes concrete in the form of termination of the process. Moreover, the findings indicated that the access to information was not experienced as problematic or as a separate cause behind the termination of the pre-acquisition phase. It was emphasized more that the information is frequently received bit by bit during the acquisition process, and companies already know to expect that the access to information will always be limited.

The views on cultural differences and their impact on the termination were conflicting. First of all, it was argued that cultural differences have a significant effect on the termination of the pre-acquisition phase due to the fact that the acquirer might not be able to understand and interpret the messages of a foreign party correctly. However, it was also pointed out that with professional parties cultural differences should not be a problem. Secondly, it was clarified that the eastern countries and Russia are frequently problematic. For example, particularly tax optimization was mentioned to cause concerns with Finnish companies. Nevertheless, it was argued that tax optimization is ‘a natural way to act in Russia’ and it is quite easily discovered and, thus, it is rarely a secret. It was natural that in particular Russia was emphasized because all the experts interviewed had experience in businesses in Russia. Furthermore, it was also noted that there might be differences between corporate cultures, which makes the concept of geographical distance irrelevant.
According to the results, the strategic fit is the bottom element to which other elements are compared. Accordingly, there is always a strategic intent behind the transaction and companies are not acquired simply, for example, because they are cheap. Other separate deal breakers which were noted to could be found as a result of due diligence were, for instance, company’s liabilities relating, for example, to pensions, properties, and environmental issues. The indemnities provided by the seller can also act as a cause of the termination. For instance, there might be a dispute over a patent or some other disagreement, and the possible compensations for the damages are massive. If the seller does not then answer for these damages, or answers too limitedly, the acquirer may not be able to take such a significant risk and the acquisition process breaks down.

In conclusion, the matters which were mentioned as possible surprises during due diligence were not emphasized solely on financial issues as it is suggested by several scholars (e.g. Carbonara & Rosa 2009; Angwin 2001; Marks & Mirvis 2001). This may be due to the fact that it is the financial aspect which acts as a basis for other analysis, and on the grounds of financial figures it is possible to get an intimation of other issues. In addition, it was argued that deal breakers in cross-border deals are not that different compared to those of the domestic deals.

4.3 Valuation and the purchase price

There were two major points discovered during the discussions on the purchase price and on its significance as a deal breaker: First of all, the price can be included in the top three causes behind the termination of the pre-acquisition phase. Secondly, and despite the first point, the discussions on the price cannot be excluded from the discussions on the other contract terms. That is to say, the price cannot be determined without considering the other contract terms. Furthermore, it was pointed out that at the beginning of the acquisition process there is generally a quite large expectation gap in the terms of pricing between the acquirer and the seller, which is due to not knowing the company sufficiently. Moreover, the determination of the central concepts which are used while valuating the company, such as the working capital, is subject to different interpretations. Therefore, it can be argued that information asymmetries are a fundamental factor underlying also the challenges of the valuation.

The outcome of the valuation phase is to a large extent dependent on the negotiations. Therefore, it can be understood that as long as the initial picture over the target company remains almost unchanged, the price is a minor deal
breaker. However, if this picture changes and, as a result, the trust on the counterparty fades, the acquirer is not that flexible in terms of the pricing any longer. Accordingly, there are no fixed solutions in the determination of the purchase price. It might be that it is not only what happens at the moment of the transaction but also what happens during the next years which matters. Therefore, there are several variable factors in each transaction, and it is not possible to compare two prices without being aware of these variable elements.

It is exactly this combination between the price element and other contract terms which hinders the plausibility of the walk-away price. Thus, there is no concrete, absolute walk-away price, and the walk-away price without any reservations or possible changes was argued to be impractical. This provides support for the non-existence of a detailed definition of the walk-away price. Nevertheless, naturally there is a certain price range which is possible because obtaining finance may become a problem after the certain price level, and the payback times must be under control.

4.4 Challenge of walking away

The decision of walking away from a deal is an extremely difficult decision to execute. In particular this is the case if there are no facts to support the decision. Nevertheless, it was also argued that if the issues are more factual in nature, they are always attempted to be settled with negotiations, and their transformation into deal breakers is tried to be avoided. It was also expressed an opinion that if a professional acquisition team is in the head of the process, approximately half of all the cases should break down. Furthermore, Angwin (2000) notes that the executed acquisitions are generally associated as positive in terms of the managerial reputation whereas a failure in the completion of the acquisition is associated as negative. However, according to the findings, it can also be understood that the amount of the terminated acquisition processes shows professionalism and, thus, is a sign of good leadership.

Different kinds of contractual warranties are utilized in order to minimize the risks associated with the pre-acquisition phase. However, there were discovered differing opinions during the interviews. First of all, it was argued that contractual warranties are used sometimes in order to compensate the time and resources invested in a case of a breakdown in the acquisition process. However, the binding break-up terms are also avoided. Secondly, there were also opinions according to which the break-up terms are not utilized. Thirdly, it was pointed out that the break-up terms do not prevent parties from walking away from the deal. In addition, if the break-up term is required by one party,
it will be required also by the other party. In conclusion, the negotiations on the break-up terms were not discovered to be that problematic. It seemed that they have no major impact on the walk-away decision because they do not prevent the terminations but it was not either mentioned that they would make the walk-away decision easier.

There was a strong consensus that the acquirers and the managers who execute acquisitions on a regular basis accept that there is always a risk of a process breakdown – it was argued that it is exactly the disclosure of risk factors which is the reason behind carrying out due diligences and not paying the money immediately. In addition, the starting point for the negotiations is that they are not binding and the parties are able to walk away whenever they like to. Therefore, the possibility of walking away is an axiom. Furthermore, despite the difficulty of making the walk-away decision, there seemed to be an agreement that the pre-acquisition phases do break down. Some of the interviewees referred it to be more common than others, but all of them agreed that they do break. It was suggested carefully that ‘the termination percentage’ may be approximately 25–30 percent or 40–60 percent of the deals.

Despite the difficulty of the walk-away decisions, these decisions were usually experienced as the right ones. It was pointed out that there are generally several matters which justify the termination even though these causes would not all be factual. Moreover, it was concluded that it is frequently the overall feeling and the combination of matters which result in this decision. However, because this general feeling is always subjective, it is challenging to analyze these terminated acquisitions afterwards.

4.5 The walk-away action and underlying elements

In order to be able to discuss the walk-away actions credibly, they have to be put in a bigger context. That is to say, the termination of the pre-acquisition phase is generally a sum of several factors. In figure 1, these settings of the walk-away action are described.
Figure 1 A model of deal-breakers and walk-away action

First of all, the phases during which the termination is most likely to occur are described in the first box. Perhaps even naturally, the pre-acquisition phase is most probably terminated either after due diligence as a result of a total surprise, or during the final negotiations as a result of the disagreements over the final contract terms. Secondly, the next box summarizes the major reasons underlying the termination of the pre-acquisition phase. According to the findings, it can be understood that some of the deal breakers do not necessary result in the termination of the pre-acquisition phase. This transformation into deal breakers can be avoided, for example, by renegotiating and changing other contract terms. In addition, a deal breaker might not be such a significant factor that it would alone lead to the breakdown of the acquisition process. Thus, in figure 1, the deal breakers are categorized according to their probability to result in the termination. On the one hand, there are factors which can be described to be complete deal breakers. Complete deal breakers are matters which cannot be overlooked or corrected by making changes to some other factors. For example, lack of trust, non-existence of strategic fit,
inadequacy of finance, and disagreements with third parties generally always lead to the breakdown of the pre-acquisition phase.

On the contrary, adaptable deal breakers are factors which do not automatically lead to the breakdown of the pre-acquisition phase. For example, because of the information asymmetries the acquirer has not an all-inclusive picture of the target company, but this is not seen necessary as problematic because the acquirer can insist indemnities and contractual warranties; or because the purchase price is subject to a large negotiation range, it does not become a deal breaker quite easily. Other matters included in this category are the target company’s liabilities, accounting issues, all quantifiable risks, and fragmentation of the acquisition process. Furthermore, the matters on which there was no consensus were cultural differences, indemnities, and key persons. For instance, on the one hand, cultural differences should not be major obstacles to the completion of the acquisition but, on the other hand, they hinder, for example, the understanding and interpretation of the counterparty’s messages. Moreover, the aspects which were not experienced as problematic were the access to information and the agreements on the break-up terms. Therefore, these are not described as deal breakers, and they have no, or at least they have only minor, effect on the signing of the transaction contract. This is described with a dash line.

Lastly, matters which relate to the preparation in an event of possible deal breakers are described on the right corner of the figure. In general, acquirers prefer non-binding preliminary contracts, and experienced acquirers are aware that there is always a risk that there will be insuperable obstacles to the completion of the acquisition. Moreover, the walk-away price is a theoretical concept which has no practical support. That is to say, it is extremely difficult to determine an absolute walk-away price.

5 Conclusions

When considering the number of M&As taking place, it is noteworthy that the failures and breakdowns of the acquisition processes are not acknowledged to the same extent – or they are acknowledged but quietly. Nevertheless, based on the findings it can be argued that the pre-acquisition phases do break down. The walk-away decisions’ effect on the managerial reputation may offer an explanation for this lack of theoretical discussions. Nevertheless, a person’s capability to notice deal breakers can also be understood as a sign of professionalism which, thus, enhances the managerial reputation. Furthermore, open discussions on the failures and terminated acquisition processes are not possible without companies’ representatives, their experiences, and their
practical views. Accordingly, forming of the theoretical background for a managerial challenge is extremely difficult if there are no tools or material from which to commence. In addition, it is worth noting that according to the interviews, the walk-away decisions executed were always considered as the right ones afterwards.

Within the settings of the walk-away action, three different components could be distinguished: First of all, unexpected factors result in the walk-away actions during due diligence whereas during the final negotiations it is, for instance, the contract terms which are more of a concern. Secondly, it is relevant to describe deal breakers according to their significance (see figure 1): complete deal breakers are such significant factors that they almost always lead to the termination of the pre-acquisition phase whereas adaptable deal breakers are subject to possible renegotiations. Moreover, an adaptable deal breaker alone may be too insignificant in order that it would be worthwhile for an acquirer to walk away from the deal. Furthermore, from the group of possible deal breakers the strategic meaningfulness and fit was the most fundamental matter. Nevertheless, a possible deal breaker, despite which deal breaker it is, is only one part of the playing field of the negotiations, and the acquirer must manage the whole field.

Thirdly, because of the large negotiation room there cannot be determined an absolute walk-away point in terms of the purchase price. Therefore, the usage of the walk-away price as an effective tool like it is suggested in the academic discussions does not come true in practice. Furthermore, it can be understood that the negotiation parties always consider which matters they reveal to the counterparty and which they do not. Therefore, it can be argued that the acquisition negotiations are always competitive in nature, and the view on open, honest, and clear information exchange is not even realistic. Nevertheless, it is worth noting that this is something that is not even expected in the transactions nowadays. In conclusion, the outcome of the acquisition negotiations and the avoidance of deal breakers are to a large extent dependent on the negotiators’ skills and capabilities. Therefore, this is an area of which development should be in the interest of future M&A experts, and companies should be able to provide the conditions for it.

The acquisition parties are willing to show commitment to the extent that it is required but they do not want to be tied to each other. Therefore, the non-binding nature of the preliminary agreements is of interest, and the contractual warranties, such as break-up fees, are built in a way that they do not restrict future actions. On the contrary, the indemnities provided by the seller are more crucial for the completion of the deal. Furthermore, frequently cross-border M&As are separated from the transactions taking place within the borders of a
country. However, in the context of the walk-away actions and deal breakers this grouping seems to be almost irrelevant.

Possibilities of renegotiations, considerations of all contract terms instead of concentrating only on one element, thoughts whether too many resources have been wasted, and uncertainty about the decision’s effect on the managerial reputation result in the fact that walking away from the deal is extremely difficult. The walk-away decision is frequently based both on several variable factors and on the general feeling. Therefore, it is important that the executive who is responsible for this decision is self-confident enough even if there were no exact facts to support the decision.

References


Elton, Graham – Weddigen, Rolf-Magnus (2006) Top tips to make the best acquisition, or not knowing when to walk away from one deal and how to pursue another is key to success. *Financial Times* 27.11.2006, 5.


REGIONAL DIFFERENCES IN STRATEGIC CROSS-BORDER ACQUISITIONS: PRE-ACQUISITION PROCESS, MOTIVES AND OWNERSHIP STRUCTURE

Annica Weissenfelt

Abstract

Increased regional economic integration and the regional nature of companies have questioned the success of multinational companies’ global ways of thinking. The purpose of this research is to deepen the understanding of the relationship between regionalization and acquisitions by examining the regional differences of cross-border acquisitions. The research was conducted as a qualitative case study within a consolidated industry. The empirical findings suggested that there are regional differences in pre-acquisition process, motives and ownership structure of acquisitions. Asia proved its uniqueness: in that region, the process takes longer to complete, the motives for acquisitions are based on market entry and partial acquisitions are favored. Contrarily, in Europe and North America the process was fast to execute, acquisitions were motivated by increase in economies of scale and mostly full acquisitions were preferred. Based on the key findings, a framework of regional acquisition activity development was formulated. According to it, the number and nature of acquisitions are dependent on the economic development of the region as well as on the development of the particular industry in the region. Along with industry and market development, factors from transaction cost theory and institutional theory affect the company’s decision to engage in acquisition activity in the region.

Keywords: strategy, regional differences, cross-border acquisition, case study

1 Introduction

The term “globalization” has been the trendy buzzword of the change of the millennium. The world’s largest organizations were no longer cited merely as
“international” or “multinational” – they were “global”, pioneers of the global village. In the recent years, however, researchers (cf. Khan 2006; Rugman 2009; Schlie & Yip 2000) have put into question the factual global extent of the world’s corporate giants. It seems as though the focus of multinational enterprises (MNEs) has shifted away from striving after portentous global growth and has moved towards attaining a stable regional market position. Given the attractive opportunities presented by various geographical regions, studies have concluded that the strategic response of MNEs’ should be to focus on the regional rather than global strategies. (Rugman 2009, 367; Rugman & Hodgetts 2001, 333.)

Globalization is visible through foreign trade figures and increasing dominance of MNEs in the world economy. Simultaneously, there has been a shift towards regionalization which has not treated every country equally – there are now regions that are very little involved in the world trade, while other areas have experienced significant intensification of business activity. (Buckley, Clegg, Forsans & Reilly 2003, 853; Khan 2006, 2–3.) Asia, North America and Europe have developed a range of institutionalized arrangements to formalize the rising economic integration that has occurred on a regional basis between individual nations (Buckley et al. 2003, 853). Such trading blocs, together with government regulations and differences in consumer needs and demands, divide the world into three major economic areas of NAFTA\(^2\), The EU and Asia (Rugman & Hodgetts 2001, 333). This “extended triad” is the focus of most economic activity and MNE involvement in the world, while “outside” areas remain fairly small players.

The link between increasing regional economic integration and globalization is foreign direct investment\(^3\) (FDI) (Buckley et al. 2003, 853). Over the last four decades the number of MNEs and the level of FDI in the global economy have risen considerably. This indicates the importance of FDI, as well as the power which MNEs hold in relation to the world economy. (Jones & Wren 2006, 7.) Despite the fact that the majority of the world’s FDI is generated by developed countries, FDI flows are on the rise particularly in the South, East and South East Asian region (Jones & Wren 2006, 17; World Investment Report 2008, 4). The rise of Asia is attributed to regional economic integration, favorable business sentiment and to a significant increase in cross-border mergers and acquisitions (M&A) (World Investment Report 2008, 46).

\(^2\) North American Free Trade Agreement
\(^3\) Foreign direct investment is a process where a firm from a country provides capital to an existing or newly-created firm in another country. Thus, FDI actions represent a crucial strategic tool for MNEs on the global market. (Buckley et al. 2003, 853; Jones & Wren 2006, 7.)
2 Increasing regional focus: micro and macro levels

The most recent aspect to the globalization-localization debate has been the introduction of a third dimension: regionalization. Regionalization is occurring in two levels: micro-economic and macro-economic. The micro-level regionalization refers to the increasing regional nature of MNEs and the shift of their strategic thinking towards a more regional perspective. The wider component, macro-economic level, is mostly visible through the formation of trading blocs and increased regional economic integration of the world’s economies. (Khan 2006, 8.)

The pressures for any MNE operating in the international business field are twofold: on one hand, MNEs are driven to gain competitive advantage through integrating and globalizing their activities, while on the other hand, the pressures produced by wishes and needs of host countries and the diverse local demands should be responded to (Khan 2006, 1; Dicken 2007, 137; Doz et al. 1981, 63). An MNE can obtain significant global cost savings by concentrating its worldwide resources in one or few locations. However, the variety of national and region-specific demands and tastes increase through internationalization and more decisions are affected by those localization pressures. (Doz et al. 1981, 63.)

Which strategy, global integration or local adaptation, is the best, depends on the specific situation. The fundamental idea behind company strategic regionalization is that it provides the optimal balance between local adaptation and global standardization, where benefits of scale and scope can be taken advantage of, while also enhancing competitiveness arising from local responsiveness (cf. Khan 2006, 49; Schlie & Yip 2000, 343). The regionalists have concluded that since many MNEs derive most of their assets and sales from their home region, they are in need of regional, rather than global strategies and structures (Rugman & Verbeke 2008, 305). This claim is also supported by Banalieva & Santoro (2009) who argue that a combination of global and local perspectives enhances company’s performance. In order to find the optimal balance, companies need to assess the need to employ regional strategy in their business. The strategic importance of a region is connected to the size of the host market and its potential to generate sales and profits, the competitive environment and the availability of resources in the region. (Schütte 1997, 437.)

Secondly, the micro-economic level of regionalization (i.e. the regionalization of companies) is illustrated by series of academic studies which claim that a majority of the world’s largest companies are not, in fact, globally but regionally oriented. For example Rugman (2003) illustrated such regional nature of most of the world’s largest MNEs by showing that out of
the 500 largest companies of the world, most derived an average of 80% of their sales from one single region of the global triad – their home region. The conclusion is that only a very small proportion of the so called “global companies” actually have succeeded in their aims at becoming truly global players. (cf. Coe & Lee 2006, 61) A vast majority of MNEs are still deeply rooted in their domestic markets and home regions, developing strategies for their own region first and then expanding to other regions (Rugman 2009, 367; Rugman & Hodgetts 2001, 337).

The arguments for MNE regionalization have also been explained through macro-level component of the phenomenon: company-level strategies have become more regionally aware due to regionalization of countries. (Khan 2006, 49; Schlie & Yip 2000, 235.) The rise of regional trading and political systems pull groups of relatively homogeneous nations closer together, resulting in increased regional integration (Dicken 2007, 39). This is illustrated in the increased occurrence of trading blocs, free trade areas (FTAs), regional production networks and other arrangements. Some suggest that the same goes vice versa, claiming that macro-level regionalization is the result of MNEs’ convincing their governments to facilitate regulatory changes so that markets are free for open competition. (Das 2005, 1–3.) These newly integrated regions provide MNEs with business opportunities and thus serve as likely M&A target regions (Buckley et al. 2003, 854).

One of the often used tools to illustrate the dominant regions in global economy is the “triad”, a group of regions that consisted of 86% of the global GDP and received most of the world’s FDI in 2005 (Dicken 2007, 38). The original concept of the “triad” claimed that the world economy was dominated by a tri-polar macroeconomic structure: Europe, Japan and the USA (Dicken 2007, 39; Rugman & Verbeke 2008, 306). Nowadays, the increase of intra-regional activity has extended the triad further and as a result, the concept of the “core triad has been expanded by some researchers to consist of three large blocs: NAFTA, EU and Asia (Dicken 2007, 39; Rugman & Hodgetts 2001, 334). It is important for MNEs to comprehend that each triad market region is – as a region – of critical importance because of the market size and the potential competitive benefits derived from being a dominant player in each regional market (Rugman & Verbeke 2008, 308). Perhaps the most prominent change in the global economy within the past decades has been the rise of the Asian economies, especially East and Southeast Asian countries. Japan and China have been the key players in shaping the East and South-East Asian economic regionalism. Interestingly enough, these two non-ASEAN countries have been able to fortify the regional integration in the area (Das 2005, 21; Khan 2006, 13; Trade and Development Report 2007, 92.)
3 Strategic cross-border acquisitions

Even though a majority of worldwide M&A takes place between companies within a country, global cross-border M&A activity has experienced a substantial increase since the 1980s. As Hopkins (1999, 208) suggests, international M&As have become the single most crucial way of integrating the economies of the world. In addition to the effect M&A activity has on global FDI figures and the macro-level economic environment, it is of great importance to the individual companies.

It is rather easy to understand why many companies choose to grow through acquisitions instead of through organic growth or innovations: Organic growth is usually much more time-consuming and difficult, and innovations come with high costs. Increasing globalization of business has increased the M&A opportunities for MNEs, but has also created pressures to be involved in the global buy-sell game.

3.1 The acquisition process

The process of making an acquisition involves numerous activities and the complexity increases when dealing with a cross-border deal. The acquisition process has been characterized in many academic studies and the phases of the process vary from study to study. Ideally the acquisition process should be a seamless one, in which the aim of the deal is decided upon and planned from the beginning. Most academics agree that the process can be divided into at least two consequent phases: pre-acquisition phase (also sometimes called the pre-combination or pre-incorporation phase), including all those activities of the acquiring company that take place before contractual agreements are finalized, and post-acquisition phase (also referred to as integration or post-incorporation phase) which generally delas with integration.

Each phase of the process carries some essential aspects that need to be thoroughly completed in order for the deal to be successful. The phases of the entire acquisition begin from indentifying,
selecting and analyzing possible targets, establishing contact with them and valuing and pricing the targets. After that, deal structuring is planned and negotiations initiated. Once the deal is finalized, integration of the two companies is begun and finally, the deal will be assessed. In brief, the acquisition process means completing multiple activities, often with limited time and information asymmetry (Very & Schweiger 2001, 12). The basic stages and activities are present in every acquisition but each case has their own variations according to the context and situation at hand.

3.2 Motives for strategic cross-border acquisitions

The popularity of M&A can be explained through the benefits that are expected to be derived from any deal (Buckley & Ghauri 2002, 3). Although all acquisitions share the underlying motive of value creation, strategic acquisitions differ according to the company’s overall business strategy and according to the sources from which such value is created. In other words, strategic acquisitions differ in their motives (Hespelag & Jemison 1991, 27). This study focuses on two types of acquisitions motives: Market-based motives and economic motives.

The first market motive for strategic cross-border M&A is to use it as a tool to enter new markets in new countries or areas. Buying an already established firm is viewed as the fastest way to enter a new market. (Hopkins 1999, 213.) When entering a new market, companies are often faced with multiple entry barriers, such as high initial expenses, industry-specific entry barriers and inexisten supplier and distributor networks (Jagersma 2005, 14). Moreover, countries sometimes have regulations that discourage market entry by foreign firms. Acquiring a firm that already exists in that market overcomes these entry barriers and hence provides easy access to new markets. (Hitt & Pisano 2004.)

According to Buckley & Ghauri (2002, 3) the second important motive for M&A during the 1990s has been the increase in economies of scope and scale, which can be seen as economic motives. The economies of scale and scope can allow the company to become increasingly effective in the use of its resources (Hitt & Pisano 2004, 47). Economies of scale can occur in many areas of a company’s activities (Singh & Montgomery 1987, 261) and can be

---

5 Economies of scale refer to the situation where by increasing output the average cost of a single unit produced decreases. This is caused by the fact that fixed costs related to production can be spread over a larger number of units of output. (Bishop 2004, 83.) Thus, economies of scale are achieved when the volume of output increases in a greater proportion than the increased inputs of production (Sawyer 1991, 47).
achieved by combining the resources of two individual companies (Buckley & Ghauri 2002, 3) or when efficiencies arise from the expanded production of a specific product (Singh & Montgomery 1987, 261).

3.3 Level of equity investment determinants

When a company expands its operations to foreign countries through acquisitions, it may decide not to purchase full ownership of the host country target company, but to acquire only partial equity of it. This situation is referred to as partial acquisition. (Chen 2008, 455; Chen & Hennart 2004, 1127; Duarte & Garcia-Canal 2004, 45.) The determinants which play a role in deciding the equity level (full or partial) of an investment have been a popular focus of FDI academic scholars in the past decade. While many of the earlier studies relied on a transaction cost approach to examine MNEs’ entry mode decision (cf. Hennart 1988), it appears that institutional factors are as important as transaction cost variables. (Brouthers & Brouthers 2000; Demirbag, Glaister & Tatoglu 2007, 418.) In this research, transaction cost theory determinants (e.g. size, previous experiences and industry features), together with variables from the institutional theory (e.g. country dissimilarity and political constraints) are being used to analyze the factors affecting MNEs’ choice to engage in full or partial acquisitions.

The transaction cost theory suggests that companies choose an investment target that minimizes transaction costs (Indro & Richards 2007, 200). The size of both, the acquirer and the target, is one of the determinants of equity ownership in an acquisition (Chun 2009, 33; Larimo 1987, 77). According to the theory, MNEs are likely to choose a lower level of equity ownership when the capital size of the investment is high (Demirbag et al. 2007, 424) because transaction costs increase as firm size increases and because the integration of a large company is more difficult than the integration of a smaller company. (Akhigbe et al. 2007, 3084). Secondly, the previous acquisition experiences of the company and its managers have an effect on the ownership structure of an acquired organization. The basic assumption of the experience perspective is that any prior foreign investment conducted by the MNE is able to provide a source of learning and capability generation that influences the company’s future investment decisions. (Mani, Antia & Rindfleisch 2006, 858.) Thus, companies with high experience in acquisitions and doing business in the region are more likely to engage in a full acquisition.
The third factor influencing a company’s ownership choice in an acquisition is related to the features of the industry. The greater the FDI concentration\(^6\) of an industry, the more likely the MNE is to choose a full acquisition over a lower equity mode. (Demirbag et al. 2007, 423.) Another industry feature is the degree of consolidation (agglomeration) of the industry. When the particular industry is highly consolidated, the market is viewed as attractive and thus new entries will be less risky. When the risk of an investment is low, companies are likely to engage in full acquisitions. (Demirbag et al. 2007, 429.) Furthermore, full acquisitions are favored in consolidated industries due to their ability to increase market power and “eat out” competition (Chen & Hennart 2004, 1132; Huyghebaert & Luypaert 2010, 396).

Fourthly, location of the investment target is an important determinant of the acquisition equity ownership decision of MNEs (Demirbag et al. 2007, 429). This transaction-based variable is, to a large extent, overlapping with the variables of the institutional theory. When compared to local host country companies, foreign MNEs are in disadvantage in foreign markets due to the liability of foreignness. (Demirbal et al. 2007; Duarte & Garcia-Canal 2004, 39.) Foreign MNEs are inevitably challenged, as there is often lacking knowledge of the local market in terms of its specific business practices, consumer demands and tastes (Duarte & Garcia-Canal 2004, 40). High country risk, perceived in high cultural and linguistic distance, low level of economic development, political instability and the liability of foreignness are some of the most important factors leading MNEs to engage in low equity ownership modes rather than full acquisitions. (Demirbag et al. 2007, 421.) In general, by forming partial acquisitions with local partners, companies can mitigate their exposure to this country risk (Duarte & Garcia-Canal 2004, 44). Thus, the greater the perceived country risk, the more likely the MNE is to choose a partial acquisition over a full one.

There are regions where government policy might limit the choice of ownership so that full acquisition is not possible. For example, typically China has required shared ownership in many ventures there. Exceptions do, however, exist and in the recent years China has been allowing more foreign owned enterprises\(^7\). There are also those cases when full ownership is not advisable even when government regulations allow it. In some cultures and

\(^6\) The FDI concentration of an industry is visible through the ratio of foreign companies compared to the total number of companies in a particular industry within a particular area (Demirbag et al. 2007, 423).

\(^7\) China was accepted as a member of the WTO in 2001 which resulted in opening and liberalization of its regime on foreign direct investment. However, restrictions on foreign ownership still exist in some sectors, such as insurance and telecoms. (WTO successfully concludes…2001.)
industries, newcomers are not welcomed and the companies within that industry are all closely knit group of actors. In these situations the MNE can enter the market in a shared-ownership arrangement – a partial acquisition. (Albaum et al. 2008, 365.)

4 Conducting the empirical study

This research was executed as a qualitative, explanatory single-case study, thus presenting an intensive case study, in order to provide a more insightful description of the phenomenon (Denscombe 2003, 30; Eriksson & Kovalainen 2008, 116). The case company for this research was chosen based on the criteria that were consistent with the research aim.

There are multiple reasons why Company Alpha was an appropriate choice as the case company for this research. Alpha is a multinational company operating in the production and maintenance of different types of equipment and machinery, mainly for the use of other businesses. It employs more than 30,000 people globally. While new equipment production is significant, maintenance and modernization of the equipment is another half of the business, generating more than 50% of the profit. The company’s strategic and operational responsibilities are shared by business and geographical units. (cf. Lasserre 2003, 85.) Secondly, the case company has traditionally been favoring a pro-active acquisition approach as a way to grow in international markets, first in Western Europe and North America and more recently in Asia and some other locations in the world. Thirdly, a large MNE was a suitable case company due to its extensive acquisition experience.

In this study, two types of data were used: primary data in the form of personal interviews and secondary data in the form of organizational documentation. The main empirical data collection comprised of semi-structured interviews of the case company’s personnel. During a preliminary meeting with the case company, a contact person of the case organization suggested appropriate candidates for the interviews. Two sets of semi-structured interviews were then conducted: At first, a set of pilot interviews comprising of four interviewees with M&A and market expertise personnel from corporate level. After that, the topic of the research was narrowed down according to the issues that arose during the first set of interviews and interview questions were altered accordingly. The second set of interviews

---

8 In order to protect the anonymity of the case company, organizations in the case industry have been given purely symbolic names according to the Greek alphabet which will be used throughout this study. Any resemblance to actual organizations is purely coincidental.
was carried out as phone interviews, where three executive level managers from different geographical regions were interviewed.

Table 1 List of interviews

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Area of responsibility of the interviewee</th>
<th>Interview type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee A</td>
<td>Market and Strategy Development</td>
<td>Personal interview</td>
</tr>
<tr>
<td>Interviewee B</td>
<td>Executive, M&amp;A</td>
<td>Personal interview</td>
</tr>
<tr>
<td>Interviewee C</td>
<td>M&amp;A</td>
<td>Personal interview</td>
</tr>
<tr>
<td>Interviewee D</td>
<td>Market &amp; Strategy and M&amp;A</td>
<td>Personal interview</td>
</tr>
<tr>
<td>Interviewee E</td>
<td>Executive, Asia-Pacific</td>
<td>Phone interview</td>
</tr>
<tr>
<td>Interviewee F</td>
<td>Executive, Americas</td>
<td>Phone interview</td>
</tr>
<tr>
<td>Interviewee G</td>
<td>Executive, Central and North Europe</td>
<td>Phone interview</td>
</tr>
</tbody>
</table>

Secondary data comprised of organizational documentation such as public relations material, press releases, company websites and annual reports (recommended by Cassell & Symon 1994, 148). Secondly, a database of all completed acquisitions between the years 2005 and 2009 was used.

The data collected from interviews and organizational documentation needed some processing before it could be thoroughly analyzed. The recorded interviews were at first transcribed into written form and then the data was divided into themes and analyzed according to the research questions: acquisition process, motives and ownership structures. Statements and arguments answering the research question were gathered and then presented in reflection to the theoretical background.

5 The main findings

5.1 The pre-acquisition process at Company Alpha

Like most of the consistently successful European cross-border acquirers (Jagersma 2005, 30), the general acquisition process at Alpha follows a specific, standardized process framework, which extends to all phases of the acquisition. In this study, the focus is on the pre-acquisition phase. Depending on the size of the acquisition, there are different roles for the managers on the country level, regional level and global, corporate level at Alpha. Since Alpha has historically been a very active acquirer, it has established a global, corporate-level “M&A team”. The role of the team is mostly related to that of
encouraging managers at the country level to screen the market for possible targets as well as to execute some early-phase due diligence on the targets. They also provide support in valuation, deal structuring and negotiations, legal questions, and taxation issues. (Company Alpha Acquisitions 2009). Thus, as usual, the primary role of the global M&A team is not to make acquisition decisions but instead facilitating and supporting the process (Hasesplassaghu & Jemison 1991, 85).

When talking about the acquisition process, the industry features must be paid attention to. The case industry is globally rather consolidated, particularly in Europe and North America where a few sizeable companies dominate the market. Thus, the possible target companies for acquisition are much smaller in size than what they were a decade or two ago. This is why the screening for the targets is the responsibility of the local country managers rather than of the global M&A team. Every country-level organization is expected to keep watch on their own local market to report how and who will monitor and keep contact with those potential targets. Another crucial role of the country-level organizations is to take initial contact and to maintain keeping that contact with the possible targets. Establishing a relationship with the target is viewed as the real starting point for acquisitions at Alpha.

Every now and then we [managers] talk to them [potential targets], visit with them, so that whenever something goes, we are right there. That close contact with the independent companies is important, that’s really the start. (Interviewee G)

Establishing a relationship and a certain degree of trust with potential targets can be crucial, especially in the case industry where a lot of the smaller companies are family-run. Moreover, the establishment of trust is the key for a successful business relationship in some regions, especially in South-East Asia (Backman & Butler 2002, 63; Morrison & Conaway 2006, 24).

Once a probable target company expresses willingness to sell, the local managers begin negotiations with them. Now it is time for the global M&A team or the area director to come into play (Interviewee G) as due diligence is set up. (Interviewee B). After a preliminary approval from the headquarters, the deal can go via two paths: Deals exceeding certain, pre-defined, monetary threshold need to be further approved by an official acquisition committee. If the value of the deal is smaller than this threshold, it is the area director who has the final say. (Interviewees B, C and D.) Then, the share of asset purchase agreement is completed and the deal is (possibly) closed.

The interviewees do not see significant differences in the ways in which the pre-acquisition process is executed in various regions. What is of significance, it that even though the process is the same, the time it takes to go through the pre-acquisition phase differs from region to region. Issues related to host
country national culture and business traditions affect the timeline of the process, especially in Asia.

Well, it could be said that the further East you go [...] the more difficult it [the process] becomes. (Interviewee C)

[...] in Europe it’s a machine-like process, they send us Excel-sheets and we take a look at it and approve it. In China, on the other hand, it’s much more challenging [...] (Interviewee D)

In some countries bureaucracy, differences in national culture and business practices contribute to the pre-acquisition process. These factors often lengthen the process but in most cases, are not actual obstacles for M&A activity. The long bureaucratic processes are immanent in less mature, developing markets in particular.

Since the establishment of trust is a foundation of any business partnership in Asia and some in Eastern countries, a lot of time must be committed to building the business relationships. What may also lengthen the process is the importance of face-to-face interactions in some regions.

In Russia, and to some extent in Asia, nothing happens if you don’t physically see each other. Contacts by e-mail don’t really count. It’s a cultural difference…or custom. (Interviewee C)

5.2 Regional differences in strategic acquisition motives

During the course of the interviews, two acquisition motives emerged above others: motive for market entry or expansion and motive for increased economies of scale of the service base. Economies of scale have a tremendous impact on the profitability of Alpha’s business activities. In terms of new equipment production and sales, economies of scales are dependent on how efficiently the manufacturing facilities are able to produce with certain fixed costs (Interviewee B). In terms of acquisitions, Alpha does not aim for increased production capacity or increased economies of scale in new equipment production (Interviewees B and G).

If we think of why we buy companies, under no circumstances do we want new production capacity, or know-how […] What we want is the service contracts. (Interviewee B)

In the other half of Alpha’s business – service operations – the importance of achieving economies of scale becomes even more apparent (Interviewees B and C). In order to fully take advantage of economies of scale in the service business, Alpha needs to have a certain degree of density in their service base
If we think of Europe, even though the market is highly consolidated, there are an enormous number of small, man-with-a-toolkit type companies [...] Then it’s our job to go after them. (Interviewee C)

This coverage can be increased by purchasing small, local service companies in the regions where there is not dense enough coverage already. Achieving economies of scale in the service business is the principal motive for acquisitions in Europe, since Alpha’s opportunity and capacity to grow organically in Europe is already rather limited (especially in new equipment sales) due to the high degree of industry consolidation. This is why acquiring existing service providers is crucial in Europe. Also, North America views density as the primary motive for M&A activity.

Asia is a chapter of its own. First and foremost, the Asian market for this particular type of equipment is very different and the industry is at different stage of maturity than in Europe and North America. In terms of Company Alpha acquisitions, activity in Asia has not been as high as in the other regions. This is because both, the overall market environment as well as the market for the case company’s equipment, are developing and growing at a tremendous pace. In terms of trying to achieve increased density in service contracts, acquisitions are not the primary means to achieve that – Alpha’s service business in Asia is growing mainly via organic growth, as Alpha has been able to convert a high percentage of the installed equipment into their service base. (Interviewees E and C; Company Alpha Financial Statements 2009.)

There are many obvious reasons why the acquisition activity motivated by increased economies of scale of the service operations has not been so fiercely initiated in Asia just yet. One of the reasons is the current condition and quality of the existing equipment in the Asian region. The local Asian companies operating in the service business have service contracts with certain local equipment units. The problem is that the condition and quality of that equipment is so poor that the purchase of those “equipment in service” contracts is not desirable. The second important reason is related to the industry’s low degree of consolidation and FDI concentration. High degree of global consolidation, which is well perceivable in European and North American markets, is not present in Asia. The “four global players” do not dominate the industry in Asia and consolidation is yet to happen.

The second motive for Alpha’s international acquisition activity is to enter new markets (countries) or new areas within already established national markets. Here, the differences between the triad regions of North America, Europe and Asia-Pacific are perhaps more perceivable than in the density
acquisitions. At Alpha, market entry acquisitions in terms of most of the European and North American countries were already completed decades ago. Ultimately, the main motive for European acquisitions is clearly to increase density, not to enter new markets. Since there are an extremely limited number of countries to enter in North America (and those countries have already been entered), the focus of market-motivated acquisitions is on increasing the presence and expanding activities to new local areas within those existing markets.

If you think about Italy for example, there are about five cities and that’s it. Then, it’s only density acquisitions. After that you cannot expand. In the United States, there are about 50 cities the size of Milan. (Interviewee D)

Being present in only one – or five, for that matter – urban regions is not enough to build a strong presence in the entire U.S. national market. And that is why Alpha has continuously pursued to acquire service companies in regions where they perceived their presence was too weak or nonexistent: to quickly enter the sub-market and gain market share and market power (Interviewees C and F).

Asia, however, was the “land unknown” for a long time and there were many divergent national markets that yet needed to be entered. Thus, most of Company Alpha’s Asian acquisitions between 2005 and 2009 were driven by market entry or expansion motives. Through acquisitions, Alpha has already been able to quickly enter countries where did not yet have active business operations. Acquisitions in Asia, have been, almost solely, motivated by entry into a new market. Acquisition of a company in Thailand is a good example of pure market entry acquisition. Prior to the acquisition, Alpha acted only as a supplier for a local distributor in the Thai market. When Alpha purchased the company, it gained a 20% market share within the local market. Interviewee E comments that acquisition was necessary, since it would have been extremely difficult to enter the market as an outsider, a foreigner, due to cost-related issues and other factors. Thus, this deal was purely market entry motivated.

5.3 Regional differences in strategic acquisition ownership structure

Between the years 2005 and 2009, Company Alpha completed 119 acquisitions. In terms of target sales, the main focus of acquisitions was on

---

9 All Company Alpha M&A statistics are based on: Company Alpha Acquisitions: Closed deals 2005-2009, Alpha Internal database, unless otherwise stated.
Central and North Europe, with 32% of the overall purchased target sales, while West and South Europe followed with a 25% share. Asia Pacific also had a 25% share while the Americas comprised of 14% of the purchased target sales. Russia had a very small, 4% share. A majority of the targets were fully acquired. Out of the 119 acquisitions, only 13 were partial acquisitions. However, the “full acquisitions” also include those targets in which Alpha had previously partially acquired and now acquired the remaining equity. What is of relevance for this research is the regional division of partial acquisitions. This is illustrated in Figure 1.

![Figure 1: Alpha’s full and partial acquisitions by region in 2005–2009](image)

The majority of acquisitions done in the Asia Pacific region were partial acquisitions, while Central and North Europe and West and South Europe had some partial acquisitions too. All acquisitions completed in North America were full acquisitions.

In the Americas, as well as in Europe, full acquisitions are the preferred choice, whenever possible. Full acquisitions are favored for many reasons. One of the most important is the advantage of retaining full control over the operations (Albaum et al. 2008, 365) and the simplicity to complete integration in a fully integrated target. By acquiring the full equity of the target managers are able to fully control all dimensions of strategic and operational business. Another issue is the profit perspective: once the target is fully acquired, Alpha can retain full control of its operation and receive a 100%-share of the profits generated by the acquired company. On the contrary, acquiring a partial equity in a company would result in a situation where
Alpha be either a minority or a majority shareholder and thus would have to share profits with the partner. (Duarte & Garcia-Canal 2004, 44; Indro & Richards 2007, 188; Jagersma 2005, 21.)

A third reason for the willingness to execute only full acquisitions is related to the previous acquisition experience that the regional units in Europe and in the Americas possess. Managers in these regions have been able to learn from previous acquisitions and are thus better equipped to deal with future acquisitions.

*Because we know what we do, […], we’ve done a lot of that already so we know exactly what we’re doing […].* (Interviewee G)

The global M&A team also plays a role in why Company Alpha prefers full acquisitions over partial ones. Interviewee F also mentions that the difference in the economic environment between the various geographical regions is one of the reasons why differences in the ownership structure appear: There are virtually no political constraints that may restrict acquisition activity of majority ownerships in North America or in Europe.

Overall, Alpha has engaged in only a relatively small number of partial acquisitions or joint ventures during its recent history. However, there have been a few partial acquisitions and one establishment of a notable joint venture at Alpha during 2005–2009. Such arrangements and partial acquisitions were occurring especially in the Asian region, where more than 50% of the acquisitions were partial. The major underlying reason for Alpha in engaging in partial acquisitions (or the very few joint ventures) is to follow a multi-tiered acquisition strategy. Traditionally, when entering new countries, Alpha has established a local independent distributor and has later purchased a part of that company and began to integrate the target into Alpha – in terms of business culture, ways of operating, reporting etc. By acquiring a partial equity of the company, Alpha has gained an option to purchase the remaining equity as well, in the future. (Interviewee C.)

*There are quite a lot of unknown factors which we aim to eliminate. It’s a kind of a multi-phase process where the previous owners withdraw.* (Interviewee E)

One might ask what are the reasons and the risks that encourage Alpha to follow the multi-tiered acquisitions strategy. There are clearly two reasons above all that can explain both, the occurrence of partial acquisitions and the usage of the multi-tiered acquisition strategy: firstly, the unwillingness of the target to sell the company and second, the perceived country risk. The unwillingness of the target to sell was the major reason for the few partial acquisitions done in Europe. In most of the cases Alpha did become a majority shareholder with future wishes or even an option to purchase the remaining
shares as well. Country risk is not perceived as a reason for partial acquisitions in Europe, as the market is stable, familiar and Alpha has a lot of experience in the area.

The reasons for Asian partial acquisitions are more straightforward. It is clearly the existence of a certain degree of country risk which makes the strategic choice of a partial acquisition a justified solution. Fast-growing, immature national markets in Asia present companies with completely different challenges and business environment than stable, more mature markets in North America and Europe. The risks brought by market immaturity can be minimized through a partial acquisition. Interviewee E explains an example of a partial acquisition from the Vietnamese market:

In Vietnam the local market environment and business culture are such that we don’t want to go have the majority [ownership] straight away. We have to understand and develop the company first. (Interviewee E)

An exceptional strategic arrangement where the presence of a local partner was viewed as vital was the “Upsilon” joint venture created with a Chinese company in 2005. Alpha is the minority shareholder while “Omega” holds a majority of the shares. The main motive for a joint venture (as a mode of ownership) was to benefit from the local partner’s knowledge and networks.

Our thought in terms of China was that [...] if we can get another partner, even a little smaller one to help us in the street fights, it is always better for the future. (Interviewee E)

In the Upsilon case, it was also the high level of perceived country risk and liability of foreignness which lead to a decision to engage in a joint venture. The overall market environment and lack of acquisition experience in the region also played a role as well as the large size of the target. Also, the large size of a target increases the difficulty of the integration-phase and thus might lead to a partial acquisition or joint venture (Akhigbe et al. 2007, 3084).

Another example of an unusual strategic arrangement is Alpha’s strategic alliance with a Japanese company Lambda through a cross-ownership arrangement. The collaboration is essential for Alpha in order to be present in the large Japanese market. Alpha only has very few strategic alliances, but there is a reason why perhaps the most important one is in Japan. First of all, the case product market in Japan is nothing like it is anywhere else:

They [the Japanese] have a type of hostile... well, not exactly hostile, but “nationalist” attitude. (Interviewee B)

The market is dominated by large Asian companies and the FDI concentration of the case industry in Japan is very low. Thus, it is difficult for
Western companies to enter the market through full acquisitions. Interviewee C explains that like in the case of Upsilon, there will probably come a time when it is necessary to begin analyzing the need for future increase in the ownership of Lambda. Interviewee B however, is hesitant about the willingness of Alpha to acquire a 100% of the Japanese company. There are similar types of preferences in terms of the Russian market.

*If we were to do regional density acquisitions in Russia, we would require the local owner to stay with a 20-30% shareholding, just to secure the functionality of the company there.* (Interviewee B)

Thus, a partial acquisition is also a method to secure the functionality of the company in culturally different markets regions.

### 6 Conclusions and discussion

This research aimed at analyzing the regional differences in pre-acquisition process, motives and ownership structure of cross-border acquisitions in a particular, consolidated industry. The empirical results showed that the pre-acquisition process was rather congruent with the framework presented in theory; beginning from identifying targets, establishing contact and building a relationship with them, deal structuring, due diligence and negotiations. What was emphasized more in the empirical results than in the academic literature was the importance of personal contacts, local knowledge and establishment of trust with the potential target organization’s managers and owners. It could be concluded that establishment of trust with potential targets and local knowledge of the market are important factors in a successful pre-acquisition phase in consolidated industries.

The empirical results proved that the actual pre-acquisition process at the case company followed a pre-defined, standardized acquisition framework regardless of the region in which the acquisition took place. That is to say, there were no significant regional differences in the pre-acquisition process in the case company. However, what transpired as new information was the difference in the duration of the process in different regions. The differences in the duration of the pre-acquisition process are caused by cultural differences and business traditions – namely institutional factors. Thus, the duration of the pre-acquisition process is influenced by institutional factors, such as differences in national and business cultures between the host and home region.

The importance of local knowledge and local personal contacts illustrate the need for local adaptation of certain activities. The empirical results illustrated the three-dimensional (global, regional and local) nature of the pre-acquisition
process, where managers from local, regional and global level are involved in the process. Thus, the pre-acquisition process at the case company supports the regionalists’ theoretical argument by which companies should not only adopt functions motivated by global integration, but take regional and local aspect into account as well.

The second sub-question studied what kind of regional differences there are in the acquisition motives at the case company. The ultimate motive for any acquisition was to increase market share and market power though a horizontal acquisition. Firstly, the acquisition motives represented by the empirical results can be divided into two categories: market-based motives and economic motives. Market-based motives are further divided into motives of market entry and market expansion, while the economic motives are related to achieving increased economies of scale in the service business, namely in the form of increased density. Furthermore, the overall nature of the case company’s acquisition activity is a feasible illustration of both, micro- and macro-level regionalism: According to Rugman (2009) a majority of MNEs are ingrained in their home triad region, developing activity in their domestic regions first and then moving on to other regions. This claim was supported by the empirical results, as Europe had traditionally been the focus of the case company’s acquisitions, later moving on to other triad region, North America and more recently to the third triad region, Asia. Thus, the empirical results supported the academic arguments of triad-regions’ dominance of global business activity and of the (home) regional nature of MNEs.

Achieving increased economies of scale was the main motive for acquisitions in North America and Europe, but not for Asia. This is caused by many reasons, such as the industry features. The lack of density acquisitions in Asia can also be explained through industry development and maturity. Firstly, density acquisitions were not made because of the questionable condition of the existing equipment in the region, which illustrates a low degree of industry development in the region. Secondly, due to the immaturity of the industry, common business culture and codes of conduct have not been thoroughly developed just yet and acquiring existing companies might not be sensible. In conclusion, this study discovered that the degree of industry consolidation and maturity of the host region have an effect on the acquisition motives.

Empirical results show that market expansion motives were important especially in the Americas. Also some acquisitions done in Southern Europe were viewed as market extension buys – expanding to new regions within an already established country. Motive for market entry was clearly number one motive for acquisitions in Asia between 2005 and 2009, after the strategic importance of Asia was realized by managers and special strategic focus was
laid on the region in 2005. According to the empirical results, the reason for this shift in strategic importance of Asia’s market region was obvious: high economic growth and development, together with increased regionalization and cooperation with regional and global trade organizations has made Asia a crucial market area for any MNE to be in. This train of thought is directly supported by the regionalists’ theoretical arguments by which macroeconomic changes can affect a company’s strategic regional focus (Schiles & Yip 2000, 235).

The third research sub-question discussed the regional differences in equity ownership level of acquisitions. The empirical findings suggest that there are regional differences in the level of ownership equity level and they are caused by numerous factors, also stated in the theoretical framework of the research. According to the empirical results, full acquisitions were favored in Europe and the Americas, while Asia has the highest share of partial acquisitions.

Full acquisitions are favored mainly because through full ownership a complete control over operations can be retained – a reason supported in the theoretical discussion too (cf. Duarte & Garcia-Canal 2004, 44; Indro & Richards 2007, 188; Jagersma 2005, 21). Another reason for the preference of full ownership is the profit perspective: a 100% ownership means 100% of the profit generated is gained by the target company. In conclusion, the willingness to get 100% of the profit generated and the need to maintain control over operations are important reasons why full acquisitions are favored. Another reason in favor of full acquisition is extensive acquisition experience that managers have in America and Europe. As managers are involved in acquisitions in a region, they are able learn from their experiences and thus will be better equipped and more willing to execute future acquisitions in the region. Hence, because of extensive acquisition experience of American and European managers, full acquisitions are favored in those regions.

More than a half of the acquisitions realized in Asia between 2005 and 2009 were partial acquisitions. The reasons to choose to be involved in a partial ownership are manifold. As the number of finalized acquisition in Asia is small, managers do not have much experience and thus have not been able to learn from previous experiences, which is likely to lead to a partial ownership (Duarte & Garcia-Canal 2004). Secondly, in a lot of the case company partial acquisitions, the aim was to gain full ownership of the target through a multi-tiered acquisitions strategy. Thirdly, the unwillingness of the target to sell often leads to a situation where the acquirer is restricted to acquire only partial equity of the target. In conclusion, partial acquisitions are related to lack of previous acquisition experience, the usage of multi-tiered acquisition strategy and the unwillingness of the target to sell.
Perhaps the most crucial factor in deciding between full and partial acquisition was the high perceived country risk of the host market. The empirical results demonstrate that country perceived risk is dependent on numerous institutional factors, such as high cultural distance, political constraints and overall level of economic development. A major factor influencing the degree of perceived country risk is the degree of maturity of the case industry in the region. To recapitulate, immaturity of the local industry is likely to lead managers to favor partial acquisitions over full ones.

The empirical results highlighted two rather rare strategic arrangements: a joint venture with a Chinese Omega (Upsilon) and a strategic alliance with a Japanese Lambda. Even though these were not acquisitions per se, they do characterize some of the special features in these regions. The joint venture was formed due to high perceived country risk, large size of the investment, lack of experience, cultural differences and the overall market environment. The importance of a local partner’s knowledge about the market and business culture was high. Thus, the joint venture was formed mainly based on the same reasons that usually lead to partial acquisitions. The strategic alliance with the Japanese Lambda emphasized the unique characteristics of the Japanese national culture, where it is perceived extremely difficult for a Western company to enter the market without a local partner. Therefore, the strategic alliance in Japan was formed due to remarkably high perceived cultural distance between host and the acquirer’s home region, accompanied by unique local industry characteristics.

The major findings of this research are summarized and illustrated in Figure 2, which depicts the factors affecting the regional differences in strategic cross-border acquisitions. The figure is a product of the empirical results of this study and can generally be applied to many MNEs operating in a consolidated industry. According to it, acquisition activity develops and changes its nature through time and according to region, and the development of acquisition activity could be viewed as a type of a life-cycle process.
According to the empirical results of this research, different regions can be roughly categorized into three phases (Phases 1, 2 and 3) according to their acquisition activity. Each of these phases are defined in terms of the company’s foreign operations in the region, motives for acquisitions, transaction cost factors, level industry and market development and institutional factors.

Company’s acquisition activity is low in regions in Phase 1. Foreign operations are mainly realized through licensing activities and through the usage of distributors. If any acquisitions do exist, they are purely market entry motivated. Managers have very little or no experience in executing acquisitions in the region. Industry development, as well as overall level of economic development in the region is low and the lack of industry FDI concentration is evident. The region can be defined as politically and legally unstable, with problems such as corruption and crime. Cultural distance between Phase 1 regions and the acquirer’s home region is high. An example region in phase 1 of acquisition activity could be Africa.

Acquisition activity in regions in Phase 2 is higher than Phase 1 regions. However, at this phase, companies are likely to engage in greenfield investments, joint ventures, strategic alliances and partial acquisitions as means of foreign operations. The motives for acquisition are either to enter the market or to expand presence in the market. Managers have some experience in executing acquisitions and doing business in the region. Partial acquisitions are favored because the possible targets might be reluctant to sell their
companies or because the acquiring company does not wish to acquire a full ownership of the target. The industry is growing rapidly, which is also increasingly attracting foreign investments to the region’s industry, thereby increasing FDI concentration of the industry. The overall market environment is more developed and on its way to further development. The political and legal environment is somewhat stable, however some issues, such as corruption and bureaucracy, might still be problematic. Phase 2 regions could be described as culturally different from the acquiring company’s home region. Example regions in Phase 2 of development of acquisition activity could be Asia, Russia and Mexico.

Acquisition activity in Phase 3 regions is high and deals are motivated mainly by increased economies of scale. Full ownership of the acquisition target is established whenever possible, in order to retain control in operations and strategic issues as well as to receive a 100% of the profits generated in the new company. Managers have had the opportunity to learn from their extensive previous acquisition experiences in the region. The industry in these regions could be described as highly consolidated and mature, with a high concentration of FDI and the market is dominated by a few large MNEs. The overall economic environment is highly developed with stable legal and political systems. The cultural distance is low between the acquirer’s and the target’s regions. Phase 3 regions include the “West”, namely Europe and North America.

There are, from a Western point of view, a few exceptional individual countries that do not conform to the figure: Japan and Korea. Both countries are highly developed economies but the industry features and cultural uniqueness make them unfit for the figure from a Western standpoint. The business culture in both countries is highly complex and powerful positions are in the hands of very cliquey and introspective elite. Thus, the presence of a local partner is viewed as a must and therefore acquisition activity in those regions is limited.

The framework and the empirical results could also be analyzed from a managerial point of view. Firstly, managers should be aware of these regional differences and work towards understanding them and perhaps develop tools and methods in order to accelerate the process. Furthermore, as the importance of local knowledge and personal contacts with local possible target companies was emphasized, companies should employ personnel with the best local social networks and knowledge of the local business culture to work as a member of the pre-acquisition process. Secondly, since the empirical findings illustrated differences between regions, managers should contemplate whether there is a need for an acquisition strategy planned for a specific region in particular. Thirdly, the empirical results emphasized the previous acquisition
experiences of the managers: it influences both, the pre-acquisition process and the level of equity ownership. It could be claimed that the horizontal axes of Figure 3 is also a representation of managers’ cumulative learning: previous experiences have provided managers with a source of learning and capability generation (Mani et al. 2006, 858).

Companies should recognize what a valuable asset that managers’ cumulated learning is and aim to forward and transfer that knowledge from the right-hand side of the Figure 3 towards the left-hand side of the framework. Thus, companies should develop tools to take advantage of these valuable managers’ experiences and transfer that knowledge further.

To conclude the results derived from the empirical research of this study, and to provide an answer to the research question, it could be concluded that regional differences in the pre-acquisition process, motives and ownership structure of cross-border acquisitions do occur, and they are mainly caused by different levels of industry and economic development of regions. Other issues leading to such differences include transaction cost-based factors and institutional factors. This main finding contributes to the existing theoretical literature, although more research is needed. The framework, portraying the major findings of this research conclude that regional differences do exist in the motives and ownership structure of cross-border acquisitions and they are
mainly caused by different transaction cost-based, industry-based and institutional variables. Some exceptions do, however, exist, and they do not fit the model due to their unique characteristics in industry, national and business cultures. Overall, the empirical findings of this study were able to contribute to the literature on regionalism and acquisitions. A framework was developed which, in its part, is a major theoretical contribution as no previous models have been created to explain regional differences in acquisition process, motives and ownership structures. The framework is one of the first analytical tools by which companies can evaluate the factors causing regional differences in their cross-border acquisition activity. The framework could be applied to various MNEs mainly in consolidated industries and could be used as a tool to analyze and plan cross-border acquisition in different regions.

References


Data Sources

*List of Interviews*
Company Alpha representative, Alliances & Acquisitions, 2.11.2009
Company Alpha representative, Alliances & Acquisitions, 2.11.2009
Company Alpha representative, Executive, Alliances & Acquisitions, 2.11.2009
Company Alpha representative, Executive, Asia-Pacific, 2.12.2009
Company Alpha representative, Executive, Americas, 11.12.2009
Company Alpha representative, Executive, Central and Northern Europe, 21.12.2009
Company Alpha representative, Market and Strategy Development, 2.11.2009

*Secondary research data (Company Alpha internal publications)*
Company Alpha Acquisitions 2009, Power Point presentation

*Secondary public research data of Company Alpha (not listed in order to protect the anonymity of the case company)*
Company Alpha Corporate Responsibility Report 2008
Company Alpha Financial Statements 2009
Company Alpha Presentation material for press conference 2005
Company Alpha web pages

*Secondary public research data of the industry (not listed in order to protect the anonymity of the case company)*
Freedonia Group Analysis 2008
FROM HOSTILITY TO TRUST – CREATING UNITY USING FORMAL CONTROLS IN A DISTRUSTING CONTEXT
A case study of management of tense post-acquisition integration

Erkki Vuorenmaa

Abstract

This paper describes and theorizes unity development in a distrusting context examining a hostile post-acquisition integration process between two global companies. This study is motivated by ambiguity concerning the unity development process and defines organizational and inter-organizational unity being dependent on commitment on goals and fluent co-operation which require both trust and control. Extant research argues that the development of trust and the establishment and use of controls requires ex-ante confidence in a relationship. As a result their establishment should not succeed in a distrusting context. This paper examines the development of trust and control in a hostile post-acquisition integration process, and describes how intensive formal controls became accepted and promoted both commitment to organizational goals and trust between distrusting merging parties. This paper also shows how the tense context inhibited and risked the exercising of social controls in gaining commitment and developing trust. Finally, this paper argues that fast development of unity is possible when parties can agree about values and goals in their relationship.

Keywords: mergers, acquisitions, trust, control, hostility and unity

1 Introduction

As a key element in success of organizational and inter-organizational relationships has been regarded the ability to create unity. This means establishing commitment for mutual goals and fluency of co-operation. The ground for creating unity in organizational and inter-organizational relationships is trust and control. Trust has been regarded as important for fluency of co-operation and commitment whereas control is needed for coordinating and communicating mutual goals (Barnard 1938; Ouchi 1979; Das & Teng 2001). The recent trend of new organizational forms has attracted
scholars to study the relationship between trust and control and their establishment. Despite the insightfulness of prior research describing the different features of trust and control relationship (e.g. Tomkins 2001; Dekker 2004; Klein Woolthuis et al. 2005; Velez et al. 2008; Puranam & Vannaste 2009), we have ambiguity concerning as to how unity is developed and how trust and control interact in that process.

According to prior theory both building blocks of unity, trust and control, require some amount of ex-ante confidence for their development (Tomkins 2001; Vélez et al. 2008). If an actor has no confidence in a potential relationship partner, will he/she not make any efforts for deepening commitments and developing trust in their relationship. Establishment of control is argued being dependent on ex-ante trust. Without any trust, relationship parties cannot agree on targets and their evaluation (Goold & Quinn 1990). Exercising control without trust in organizational and inter-organizational relationships has been described creating suspicion and negative feelings between a controller and a controllee (Ghoshal & Moran 1996; Klein Woolthuis et al. 2005). This begs a question concerning whether and how unity can be developed in a distrusting context where parties are hostile and have divergent goals.

Another question rises concerning the development process of unity. In prior theory, the development of trust and control has been described as a gradual process (Shapiro 1987; Tomkins 2001). This means that in a trust development process is started from small commitments and until reasonable trust is developed heavy commitments are made. This has been described to apply also to the establishment of controls. Without reasonable trust, the establishment of intensive control has been argued to harm co-operation and hamper the development of unity (Tomkins 2001; Klein Woolthuis et al. 2005; Vélez et al. 2008). In many circumstances such as in a re-organization of company, establishing internal and external partnerships and mergers and acquisitions co-operation between parties cannot be developed gradually but there is a requirement for comprehensive coordination and fluent co-operation from the beginning of the relationship. This begs questions concerning whether and how unity can be established quickly and how co-ordination of a relationship is exercised without unity.

This paper examines the above-mentioned questions analysing unity development in a distrusting context. The empirical analysis is grounded on a longitudinal case analysis of a hostile merger between two globally operating companies. Moreover, this paper describes the unity development process and interaction between trust and control in that process. This study makes several contributions to the existing literature on unity development. First, this paper describes how common goals and trust were quickly established between
hostile distrusting parties in a post-acquisition integration. This contributes to extant theory which holds that unity development requires ex-ante confidence and a gradual development process (Tomkins 2001; Vélez et al. 2008). Second, this paper describes how intensive formal controls played a critical role both developing common goals and building trust between parties. This contributes to prior theory which holds that formal controls do not operate properly and inhibit trust development in a distrusting context (Barnard 1938; Ghoshal & Moran 1996; Klein Woolthuis et al. 2005). This paper classifies the elements of formal controls which made it acceptable in a distrusting context and how hierarchical and output controls contributed to both commitment to mutual goals and trust development in the distrusting context. Third, this paper shows how value disagreements and political tensions in the distrusting context inhibited executing social controls and made their use vulnerable for risks. This enlarges our understanding of the use and implications of social controls since in the extant theory social controls have been regarded effective for unity development and the negative implications of their use have not been reported (Das & Teng 2001; Dekker 2004; Velez et al. 2008). Finally, this paper argues that the requirements for fast unity development in a distrusting context are goal and value neutrality between parties. When these requirements are made unity development does not need ex-ante confidence and gradual development process.

The structure of this study is as follows: first, it reviews prior theory concerning the development of unity and the relationship between trust and control. Second, it raises gaps and contradictions in extant theory. Third, the empirical method and case organization are presented. Fourth, using a longitudinal case-study analysis, this study describes how unity was established in a hostile post-acquisition integration process. Fourth, this study analyses and discusses the findings. This study ends with conclusions.

2 Prior theory and research setting

Since Barnard (1938) the success of organizations has been regarded as being dependent on the social context of unity which serves a purpose of organization. This means that organizational actors are committed to organizational goals and are willing to co-operate with each other. The recent trend of inter-organizational relationships has again put into fore unity development. In these arrangements the challenge is how to form combined goals and fluency of co-operation between organizations (e.g. Das & Teng 2001; Dekker 2004; Cooper & Slagmulder 2004).
The unity development is dependent on the ability to create trust and establish control. Fluent co-operation and loyalty require trust whereas control systems are needed for both communicating and coordinating goals. While both trust and control are important for building unity they both also reduce uncertainty in co-operation. Control as defined in this paper is *influencing another’s behaviour in order to try to make it predictable* (cf. Das & Teng 1998), trust, as defined in this paper, is *confidence in the positive expectation of another’s behaviour under circumstances of uncertainty* (e.g. Lewicki et al. 1998). Distrust means opposite to trust, in other words, negative expectations of another’s behaviour under circumstances of uncertainty.

Despite decades of research into trust, control and their relationship our knowledge of unity development is limited. In prior research co-development of trust and control has been described as a gradual process which starts from small commitments and efforts in a relationship. The most complete presentation of this process is Tomkins’ (2001) model of the relationship between trust and control. The right hand side of Figure 1 (marked with an unbroken line) describes our current understanding of the relationship.

As we see from Figure 1 both the development trust and control has been described requiring some level of ex-ante trust. Without any trust it is not engaged in a collaborative relationship. The lack of trust cannot be totally complemented with controls. In fact, establishing controls require ex-ante trust for two reasons. First, controls are never complete so they require trust that the other party follows orders, procedures and contracts (Vosselman & van der Meer-Kooiinstra 2009). Second, controls require trust that the establishment of
controls is not experienced as a signal of distrust. When controls are experienced negatively it has been described result in defensive, reserved behaviour and lack of motivation, which increases distrust between parties and can launch a spiral of increased control and distrust in a relationship (Ouchi 1979; Enzle & Anderson 1993; Frey 1993; Das & Teng 2001).

In prior collaboration literature has been emphasised searching for liable parties (Tomkins 2001; Dekker 2004). This minimises both risks in collaboration and need for controls making a relationship flexible and cost-effective. When a liable collaboration party has been found both trust and control develop gradually along the time. A good foundation of trust provides a ground for establishing control systems and signing contracts. If behaviour of the object of trust is positive, more commitments to a relationship are made. When trust is established, controls used in a relationship can support the development of trust. Controls support trust when they are used as a coordination device, signal of commitment or as a safeguard framework for a relationship (Klein Woolthuis et al. 2005). In fact, making more commitments in a relationship can require increasing the level of control to support information sharing and coordination in a relationship (Vélez et al. 2008). This describes the straightforward line drawn after the inverse U-shaped curve in Figure 1. If control is not used in a coordinative role and the controlled party does not experience it necessary, control can be experienced negatively even in a trusting relationship. Therefore, it has been advised to decrease control in a mature relationship when confidence in a partner is achieved (Tomkins 2001).

Extant theory explains unity development, and trust and control interplay in a context where is ex-ante confidence and possibility to develop a relationship gradually making commitments step-by-step. When we consider situations in which we do not have ex-ante confidence or we even have negative expectations on our partner’s behaviour and we need to make intensive commitments for co-operation, prior theory does not give tools to handle these situations. In fact, extant theory does not support unity if we do not have ex-ante confidence.

According to prior theory achieving high unity, both high trust and control, when the starting point is distrust, is not possible (to move from point A on the left side of Figure 1 to a point B on the right side). First, extant theory argues that commitments are not made in a relationship in which is no ex-ante confidence. As a result it is unlikely that when an actor has distrust over a partner or an organization is he/she willing to take risks and start to develop trust. Second, according to prior theory establishing control requires also ex-ante trust. Divergent goals and distrust over parties unlikely result in agreeing on goals, coordination and evaluation process which all are needed for
developing unity (Goold & Quinn 1990). In fact, it has widely been suggested that employing formal control systems, hierarchical controls such as rules and procedures or output controls such as output targets, in a distrusting context result in negative consequences, for example, it increases suspicion, lack of motivation and hostility (e.g. Ouchi 1979; Ghoshal & Moran 1996). In order to avoid these problems, there has been suggested to use social controls to facilitate the development of trust (Das & Teng 2001). These authors, however, have not considered how social controls leaning on shared values and agreement on goals (Ouchi 1977, 1979), can facilitate trust in situations in which parties do not have common goals and do not trust each other. As a result it seems unlikely to develop unity when parties do not have ex-ante confidence. This means that we have ambiguity whether and how organizations can be coordinated during that kind of situations.

Extant theory holds the assumption that the building blocks of unity, trust and control, need to be developed gradually. The development of trust is dependent on learning from an object of trust and receiving positive feedback until high commitments are made. As trust development is sensitive, overemphasis of controls need to be avoided until trust is in a reasonable level that controls do not create negative consequences for co-operation (Tomkins 2001). In many occasions, it cannot be waited long until we need to have fluency of co-operation and high level of co-ordination such as in re-organization, mergers and acquisitions and inter-organizational arrangements. Extant theory, however, does not explain how we can develop unity quickly and how we can coordinate a situation in which we do not have unity.

In order to provide answers for the above-mentioned gaps in our knowledge this study analyses unity development in a distrusting context. This study describes how unity was developed and trust and control interacted in a hostile post-acquisition integration. it contributes by illustrating and explaining how formal controls played an important role both coordinating the merger and building trust between the parties in a context in which tensions and cultural conflicts hampered the use of social controls. Moreover, this study indicates that achieving both value and goal neutrality enables fast formation of unity.

3 Methodology

3.1 Case selection

Resarching the evolvement of unit requires rich longitudinal empirical material. This was attempted by conducting a longitudinal case study of a merger between globally operating Finnish and Dutch companies. In this
merger, a global Finnish public company acquired a Dutch public company twice its size. Both of these companies had manufacturing and sales operations in more than thirty countries.

Their merger was considered suitable for the purposes of studying the establishment of unity for several reasons. First, the acquisition process between these hitherto fierce competitors was difficult and created problems between the companies. The acquisition faced a considerable amount of resistance on the Dutch side and all these difficulties resulted in a tense relationship between the parties. Second, the acquisition was framed as a merger-of-equals both inside and outside the company. This merger-of-equals approach was believed to create an especial need to consider the unity development process within the merged entity. Third, the companies were mainly complementary and targeted synergies through sharing best practices and developing joint projects. The achievement of synergies in these areas formed a notable need to create conditions for collaboration in the merged company. Fourth, despite their complementary characteristics, the merging companies also had a substantial amount of overlapping businesses. The achievement of publicly promised high amount of synergies pressurised to conduct considerable amount of rationalisation projects. This provided opportunity to explore management of unity between rationalisation projects and creating conditions for collaboration. Finally, the case company had a friendly attitude toward the research project, which was seen as important as the subject concerned a delicate matter.

3.2 Data collection and analysis

Empirical material on the governance and development of unity in the merged company consists of interviews, case company documents, informal discussions with representatives of the case company and external news items. Altogether 33 interviews with 27 people formed the main source of the empirical material. Interviewees represented key individuals with respect to the merger from different organizational levels including CEO, CFO and other management team members, business unit and group directors and controllers, sales and operations directors and representatives from HR, communications, group operations and accounting functions. Good relationships with the case company reflect that it was possible to interview persons who were going to be removed shortly after the interview. In addition to current management, there were interviewed some retired managers from both sides of the merged company. The average length of the interviews was two hours, varying from one hour to four-and-half hours. All interviews were tape-recorded and
transcribed verbatim. In addition to interviews, empirical data was obtained in informal discussion during coffee breaks, factory tours and lunches. Case company documents included the confidential business and merger plans of the merged company, several integration and implementation plans and internal newsletters. Besides interviewing key individuals and collecting documents at different organizational levels for the purposes of achieving complete picture of governance, unity development and knowledge-sharing in the merged company, the data collection aimed data triangulation. Interviews were continued until additional interviews did not provide any new information. The period of analysis was six years in which active data collection was conducted during three.

The data analysis was conducted in several phases. First, an overview was formed of the merger and the integration process. This was conducted classifying the empirical material into a chronological form and identifying key events. Second, control and trust were classified in the post-acquisition process. Prior theoretical constructs such as output, hierarchical and social control and personal and systems/institutional trust concepts were found useful in this categorisation process. Third, the analysis was focused on how control and trust interacted in the unity development process. The facilitative mechanisms and outcomes of development of unity were classified. During the data-analysis various case-reports were written and key elements in the study were coded. These short reports were helpful in conducting the field-work directing both further enquiry and providing suggestions concerning whom to interview.

4 Case-study

4.1 Presentation of the case company and journey towards the merger

The case of the integration process between one of the largest Finnish companies and a publicly-listed Dutch company twice its size is delicate in the sense that, at first, the Dutch company approached the Finnish company with a view to buying it, but the roles were reversed when it transpired that the Finnish company had a much stronger balance sheet and the difference in market value made a merger unrealistic. The rationale for joining forces was, however, clear. The companies were largely complementary both in terms of product range and regional areas, although overlaps existed in headquarter functions and in some geographical areas. The consolidation of customers, suppliers and competitors also created growth pressure for both companies. Customers had started to prefer companies, which offered the capability for
global tenders, and thus local and small companies were not regarded as being able to survive in global competition.

Although there were purely rational reasons to merge, the acquisition process turned political, which strongly influenced the integration work. The CEO of the Dutch company did not handle things in an honest way, seeming to support the acquisition until he was able to sell his stock options at a high price after the announcement to the markets of the ongoing negotiations. After the sale, he came out strongly against the acquisition, but was then dismissed. There was strong resistance to the acquisition, not only from the Dutch CEO, but also at various levels of the organization, mainly because of cultural and size differences. Because of the larger size and the fact that the acquired had longer traditions in the industry, many organizational levels at the acquired felt that the acquisition should have occurred the other way round. In order to decrease resistance, the acquisition was negotiated and communicated as a merger-of-equals. Despite the merger-of-equals approach communicated during and after the closing of the deal, the acquired company felt suspicious and showed resistance towards integration with the acquirer. This did not make for an easy integration process, and instead tense, and, in some cases, hostile relationships between the merging parties created several obstacles. Next the empirical story of the post-acquisition integration illustrates how the merged company facing several problems and conflicts ended up developing high level of coordination and fluent co-operative relationships.

4.2 Hostility and distrust in a post-acquisition integration

Being acquired was a bitter bill for the Dutch company to swallow, especially as the acquirer company was smaller and from a small country. The acquirer company had also much shorter experience in the industry. Anger, uncertainty and hostility toward the acquisition were openly shown after concluding the deal. Although the acquisition was communicated to provide benefits for the both companies these were not seen but attention was on loosing identity, independence and uncertainty. A group vice president from the acquired side described the atmosphere as follows:

*Some people who are not with us any longer say it is all shit and don’t want to have it. Why? It is terrible that such a small company took over us, such a big company. That could be actually what you could hear ... that was very short-sighted. Accidentally it was purely emotional and there was no reason.*

The commitment and atmosphere in the integration did not help evident conflicts at the top of the merged company and uncertainty of the future. First
time a large number of key individuals from both sides met in an integration kick-off meeting in Rome. This meeting location was based on the old adage ‘All roads lead to Rome’. There were presented the vision of the new company, preliminary integration plans as well as cultures of the both merging companies. Participants at the meeting described that managers of the companies were clearly divided looking comfort on their sides and competitiveness between companies was evident when they were presenting their companies, functions and units. It was also highlighted the differences and tensions between executive team members. This created a lot of speculation how they can match their chemistries and how these tensions impact on the integration process. One integration team leader describes the tensions at the first meeting.

There was a lot of tension on absolutely top level between CEO of the acquired and three guys from acquirer that was very clear. We were talking after the first meeting ‘god knows how this one is here’ that was so clear, they were so far from. They were so different blood types so the acting CEO of the acquired was exactly the opposite of CEO of the acquirer. They became millionaires when we bought their company. They didn’t need to compromise that is necessary in a merger, they became independent because of their options. That’s why tensions came according to my opinion.

A lot of uncertainty was related to own and company future. It was clear for everybody that as the companies had relative amount of complementariness, the first announced organization form would not last long. Naturally uncertainty was highest at headquarters of acquired company but clearly evident in business units as many units were producing and selling same time of products. Thus, managers in the task forces could develop plans which might mean changing their position in the organization of even kicking themselves out. Feelings of beginning of the integration are described by one integration team leader.

At that time the organization was not ready when we were meeting first time. So a number of people knew that probably I will be redundant. I mean the people did not know that of course, we do not know and that was sure for all of us. [...] the process was so that they were making a number of integration teams. Fifteen or twenty people were sitting in more than one team, and when that was ready after some months then the new picture should be ready. That meant of course some of the people who were sitting there could be sacking themselves if they say I am suggesting we are making one unit instead of two. He was sitting in one and could be made redundant. I mean
that is also probably what you are paid for. You must be so objective that is the best solution even if it takes some of your own people or even yourself. Of course the people who were nominated as integration team leaders they had a feeling, yeah, the big bosses have been looking I would not be a leader of an integration team if I am going to be kicked out. [...] of course you had the feeling that when I am sitting here then I am a little bit more safe than the rest but nobody is safe of course...

Speculation of the future of the company and uncertainty about own position among all different tensions created the challenging context for establishing unity. Moreover, the existing tensions at the management team reflected both to management of the group and the integration process. The management was not united to build unity. Next is described in more detail the influence of tensions in the management of the group.

4.3 The influence of conflicts on the governance the merged company

Hostile and distrusting atmosphere between the merging parties had a clear influence on governance of the merged company. As a result of the tensions between the merging parties, especially, between the acting CEO of the acquired and the CEO of the acquirer, there was no ability to put emphasis on appointments in order to support the merger. Representatives of the acquirer described that while they would have liked to use an external consultant to evaluate best candidates for positions, the acquired company totally disagreed on that. As a result appointments had to be made on a merger-of-equals basis, using a top management selection approach, which, in fact, meant that more managers were nominated to top positions from the acquired because it was a bigger company.

Disagreements and cultural conflicts had a significant impact on co-operation at top level of the merged company. Tensions at the executive team were a result of frustration concerning the director positions received, disagreements of strategy and above all the style of governance, which culminated in the cultural difference between the companies. Whilst the acquired company was accustomed to a consensus-orientated decision-making style, the style of acquirer, which became the style of the merged company, was much more centralised, decisive and less discursive. The acquired company directors told me that they had difficulties in adapting to the role of assistant to the CEO, as they were used to arguing and making collective decisions with their CEO.
As a result of the cultural conflicts, the merging parties could not agree on values to carry in the merged company. Tensions between the parties describe that the executive team could not even agree on a logo of the merged company. As a result of the tensions concerning the logo, in one executive team meeting where the logo had been on the agenda for some time, the directors of the acquired were presenting their suggestions when the CEO of the merged company suddenly announced that he had already decided that the logo of the acquirer will be the logo of the merged company. Acquired company directors told that the decision along with the logo, which did not represent ‘merger-of-equals’ approach, was very difficult for them to swallow. Due to the enormous tensions raised by this issue, it was impossible to introduce onto the agenda a cultural integration program which was planned to launch in the beginning of the integration. Other cultural integration than the necessary identity campaign stayed out of agenda for four years.

In addition to the cultural tensions in the executive team, the organization below also had difficulties in accepting the cultural integration efforts made. A group vice president gave an account of an episode that occurred at the headquarters of the acquired company, which describes the difficulty of accepting acquisition and cultural conflicts raised during the integration.

I was present at the headquarters of the acquired when the merged company CEO was making a speech. There were delivered pins of our new logo. Some made the sign of the cross and refused to take it, some attached it to their chest up-side-down and others took them and loyally attached them to their chests. I wondered how this is going to go on when this small issue made so much variance in behaviour.

Tensions in the executive team revolved around not only cultural issues but also organizational structures, divestments and acquisitions, and created conflicts that did not help in making control of the company easier and in developing trust between the parties. Conflicts and tensions slowed the decision-making and hampered the integration process. The situation is described by an executive team member as follows.

[Conflicts at the executive team level] caused the start of speculation on what kind of decisions and views will win, and it is not a good situation for business unit manager that these kinds of conflicts are perceived...

Lack of trust at the executive team also started to spread to lower levels of the organization, causing not only confusion and speculation but also hampering the development of trust at lower levels of organization. In addition to the above-mentioned cultural and strategic conflicts, one acquired company director was especially dissatisfied with his role and let his frustration be seen.
This influenced his commitment to integration and the organization below did not receive the support needed to execute integration projects as planned. Thus, some members executive team, which should have set a good example and demonstrated the values of unity to their subordinates, instead showed frustration and lack of trust, hampered the building of unity and effective integration work. A group vice president from the acquirer side described the situation as follows:

First it [trust] starts to trickle downwards in the organization. At first if the executive team shows mutual trust and respect, it shows in their subordinates and from there, it trickles down, or up if there is lack of trust [...] the whole organization under this kind of [management] and then results or changes do not go fast enough and it means that culture doesn’t change....

Recognising the difficulties of governance of the merged company, lack of trust between merging parties, conflicts and disagreements concerning the direction of the company and culture, it was difficult to expect, especially, acknowledging prior theory, that there was quickly established unity and found more than expected synergies. Next section describes how the merged company executed the integration process, tackled the problems and ended in unity.

4.4 Establishing unity in a distrusting merger

4.4.1 Organization of the integration process and creating stability

The Finnish acquiring company expected relative amount of integration difficulties because of size of the merger and resistance of the acquired company. In order to avoid these problems and commit the acquired to this merger, they decided to communicate and execute this merger as a ‘merger of equals’. This meant that instead of conducting the integration process, which started immediately after completing the deal, in an old way by just implementing their policies and procedures to the acquired company as the acquiring company had done in all its previous acquisitions, this was planned to execute together and in an equal manner. In order to decrease politics and ensure fluency and controllability in the integration process, the CEO of the acquiring company decided to create a special integration governance structure to manage the integration process. The situation is described by a group vice president from the acquirer:
All other acquisitions we have made we have tried to handle on our own. But this was such a big case that we expected that there are going to be many conflicts and it was seen as important that there is an outside facilitator which keeps all things together.

Consultants were hired in both to bring resources for the integration governance and to support neutrality in the integration process. They brought with them an internationally widely used integration governance structure. This consisted of various mechanisms to support both highly intensive controllability and objectivity. This integration governance structure, being a widely used governance mechanism, became easily accepted on both sides. This integration structure consisted of a steering group, whose task was to manage the integration process including twenty integration teams assigned to negotiate the ways of integrating different functions, to search for synergies and to think about new business prospects.

The expected tensions were taken into consideration in organising the integration management. In order to highlight the impartiality and objectivity of the process, the selection of integration teams and integration management was made not to create a feeling of bias. Consultants were selected bearing in mind that their backgrounds would not cause any national tensions between the companies. One of the consultants was a Finn based in Finland, one was Dutch based in Holland and one was from Iran. The integration teams were filled equally from both of the merging companies. An integration director was appointed from the acquired side in order to gain the commitment of the acquired to this structure.

It was a tactical move at first. The integration director regarded positively this merger. He had a positive attitude that it is reasonable to make and second because we were a buyer in a way, although it was externally done as a merger, Finnish company bought the Dutch one. So the CEO wanted a balance that would get more actively to the structure of this deal. He was a very charismatic active communicative good leader and it was seen that he could contribute this to atmosphere making this merger. It was also so he could very quickly build credibility in the acquirer and he had a strong credibility in the acquired. (A group vice president)

Recognising the uncertainty of both parties considering future of company and in order to commit them to integration, key individuals from both sides were seen necessary to bundle into the integration process. During the following months, integration teams were required to screen synergies and establish savings and additional sales plans with specific milestones. Before finishing the formal integration process, all plans had to be completed, and
regional and functional organizations, accountable for these plans, had to be formed. The implementation of some minor integration projects started during the formal planning period. Committing key personnel to the integration process not only involved them in the integration work, but also directed their attention away from worrying about the future. A group vice president described the committing role of integration work as follows:

*In a way the issue [uncertainty] was partly handled … that almost all people were bundled to integration work, and about twenty integration teams [were formed] which thought that or that issue. And that certainly kept individuals committed and there was enormous hurry which keeps [you] committed. If there is time to think, then faith is shaken and if there is all the time horrible hurry, then you start to work and not to wonder ‘ok who is next to be swept away’.*

This governance structure providing neutrality and involving committing elements built stability among the merging parties. As a result the integration governance structure built a ground for establishing deep collaboration and acceptance of continuous and close monitoring. Next is described how merging parties were committed working toward common goals.

### 4.4.2 Using formal controls to create commitment to goals

Strict process and financial accountability forced the merging parties into cooperation. Despite existing hostility and uncertainty, merging parties were bundled to work together and within highly strict timeliness they were required to complete analysis of synergies and recommendations for the future of the merged company. At the beginning, the benefits of integration were not necessarily seen and enthusiasm to work together was not high. It was described that merging parties were cautious and a distrusting atmosphere did exist. An integration team leader from the acquired responsible for identifying synergies on the sales side between two different product technologies describes the beginning of his integration teamwork as follows:

*Initially people did not see the benefits. I began the integration team just grabbing people from both sides and saying you are in the team and you as well, here are the targets. We have to realise them. I initiated them to work together. We tried to get some early wins basically what we did was to use good marketing contacts from the acquired to find business for the acquirer.*

The integration framework delegated much of the unity development to the integration team leaders. As they were responsible for delivering synergy and
integration plans in a given day, they became in fact responsible for developing co-operative atmosphere in their teams. Through these teams task force leaders were required to commit their team members and show them benefits of a merger. A task force leader describes the trust development process in the integration team.

> Trust whether it is integration or not it is developed taking people into the processes so they can influence on issues. That’s the first issue. So, we get the commitment. Then it is done logical issues and we execute them as we have planned. That’s the way how trust is built. Principally, it is a quality of a good leader. There’s no tricks, it’s people skills and working with people. In a merger, it needs more attention because the period is more intensive and shorter to show that it is got something out of it.

It was described to me that in order to facilitate the commitment of integration targets and to encourage the integration teams to use their local knowledge, at the beginning integration targets were given on an open scale. The progress of the teams was, however, followed on a regular basis. In order to guarantee that the teams would achieve a pre-determined target for synergies and in an agreeable time scale, an iteration process was used. The integration plans were reviewed by the integration steering group, which sent the plans back if they did not meet the targets. This iteration process which also involved suggestions concerning where synergies should be sought if the teams did not progress properly, continued until the plans met the goals determined in the business plan. After that the progress of the integration teams was followed closely in order to ensure that teams will deliver what they have promised. The integration steering group member describes iteration and monitoring process during the integration as follows:

> We looked is it [the integration plan] feasible. Is it something what conform to our general target, if yes, let it go. So it was very bottom up. A little bit structured from the top because of our first business plan ideas but then it was more bottom up from them. So therefore if they say this is the target they should achieve it. You know on the other side then they have to give some milestones which we were really focusing. ‘Did you reach that milestone in terms of actions?’ Maybe the synergies are not there today but the steps to get to those synergies we were following them very precisely and reviewing them every month in first hundred days.

Commitment and accountability to integration were facilitated by using formal presentations in the progress review meetings. These presentations shared information on the ongoing integration projects, and allowed
individuals publicly to comment on the projects and to co-ordinate overlapping projects. Presentations were also as a social pressure mechanism: they made the integration teams accountable and also tested the integration team leaders. The role of these presentations was described by an executive team member as follows:

We went to this [formal presentation system]. Each guy presented his sheet and that was the formal aspect. This idea of the whole integration process is to give a formal aspect of the presentation and the integration team, etc. You know it gives the pressure and responsibility to each integration team and to us as the integration steering group to follow these targets. So because it is presented formally, everybody hears, and of course it is also to know each other and to see little bit how they present themselves. I mean all these presentations also are a way to test people when they present themselves ... at the end if you don’t reach your target I mean everybody points at you so, yes, it is a little bit a way of putting pressure.

The progress of the integration teams was followed using a separate synergy reporting procedure. This reporting format involved both synergy and restructuring costs and a progress review of integration projects. Since the budgeting had already been made during the autumn, these synergy savings could not have been included in the budgeting procedure, since integration teams started making their first integration plans at about the same time as their yearly budgets were being presented. Interim reporting was done on a monthly basis. Some specific integration plans were connected to individual managers’ incentive plans to increase their motivation to complete these projects.

During first year lot of these personal assessments were based on these integration targets which were thought in these teams. It was regarded important that the work would continue with these plans. I think one thing which helped with this integration was that both companies had a background of individual performance evaluation and management by objectives culture. (A group vice president from acquirer)

Through these different accountability building forms teams were committed to integration targets and motivated both to search synergies and execute the integration plans. Besides accountability building, the formal governance elements were also used to familiarise parties to each other and motivate them to co-operate. Next is described how different governance elements boosted co-operation and built ground for trust.
4.4.3 Using controls to familiarise parties and to communicate

The integration governance mechanisms were described as important in facilitating familiarisation between parties. Because of continuous tensions at the executive team level, working together in teams was only mechanisms by how barriers between parties were attempted to lower. Thus, breaking barriers was limited in working in these integration teams and meeting at the integration conferences in which generally only integration team leaders participated. The familiarisation between the parties was described as essential because as the merged company targeted on considerable amount of synergies in intercompany sales and benchmarking both presentation of these opportunities and creating co-operative relationships were important. The importance of familiarisation is described by one business group director.

The first thing you have to know is your colleagues, not only by phone, you have to get into contact to colleagues. You have to work together, you have to drink beer together and, if I know somebody, afterwards it is not problem to make a phone call and say hey hello in Australia, what about that customer, I have this information, is that right?... If I know someone personally, afterwards it is not a problem to have a phone call videoconference or whatever. If you start with a phone call and video conferences, then the speed of agreeing is not so good.

In addition to creating commitment and accountability and facilitating familiarisation, the conferences were described promoting excitement and building credibility in the complicated integration process. As twenty integration teams were appointed to manage different projects in a tense environment, integration conferences were seen as important to support credibility and confidence in the process as well as to facilitate excitement in the integration teams. Conference presentations also gave transparency to the integration process and an open communication channel in the organization. An integration team leader explained the role and importance of these conference meetings as follows:

Those meetings are first of all to get to know each other, to keep the excitement running, to keep the people informed, so it was information meetings and also it was important that people had the feeling that we are on track, we are going forward. After then of course a lot of things happened in the mean time. A lot of information was given from those integration teams … how integration teams are going on. So you could come back to your own unit and say yeah yeah yeah, sales synergies are working well in France, it looked ok in Italy, there is
this integration team here in purchasing, they are on track, here we have a small problem.

In addition to the integration conferences, confidence in the merged company and relationships between the parties was facilitated by continuously stating the vision and strategy including the financial targets of the merged company in integration meetings and in integration news, and by reporting early successes in the integration process. Despite strong cultural conflicts and tensions during integration, a positive atmosphere was described to develop as parties started to see logic in the strategy and the early achievements of the merger.

In addition to the continuous flow of information, a cultural identity campaign consisting of integrating names and logos, which at the beginning created strong resistance at different levels of the acquired company, was told to receive positive feedback. The large investments in communication were described to me having created a view that the group had a strong commitment to the integration and that the merger would succeed. In addition to integration conferences, other hierarchies were employed to organise meetings, to support the achievement of integration targets, to assist in the familiarisation process and to develop a basis for cooperation that was important in building the basis for trust between the parties. A business unit director from the acquired sided described how these communication and meetings promoted confidence:

Very important that you have clear guidelines, clear targets about responsibilities, about figures to communicate, to give vision of the company and corporate identity, and all these things which have been done are on around the way. In addition to these formal things it is very important to have this co-operation and to bring profits for people for co-operation to make events, meetings, sales conferences, general managers conferences where all different people where they can come to together and discuss as openly as possible.

As a result of the familiarisation and building pressure to find co-operation projects, some good joint opportunities were discovered. One success story was invented in a meeting between two complementary production technologies. A combination package of two products was introduced, one of which was produced by acquired and the other was developed by the acquirer. A business unit managing director from the acquirer side describes the meeting with the acquired company sales team.

[A sales guy from the acquired company] was discussing a project with [a world wide company] and then we recognised that we can supply this part of end-product here. If you suggest to [a world wide company] you can produce this here and price is so, and so we gave a
full package to them. And that was one of the successful stories and one of the positive ones yeah. It always boils down to people. People have the interest and intent to work together and they will do, then results will also be good.

Different integration governance structures acted as a ground for building co-operation and between the parties. As the directors of business units had built co-operative relationships, it was easier to build co-operation between technicians and sales people under them. Several different structures were built after the integration to boost benchmarking, joint development and intercompany sales. These structures not only were important for building co-operation to support synergies but also facilitated communication and decreased barriers between the merging companies. Besides building accountability and boosting familiarisation and communication, formal controls played an important role also in solving and facilitating conflict resolution. Next is described how formal controls acted in this role and facilitated unity.

4.4.4 Using controls for conflict resolution

Integration governance structure gave tools for close control and conflict resolution. A support person from the integration steering group was appointed to facilitate every integration team. The role of these support persons was to co-ordinate the integration process, push the integration teams and help them to overcome problems. The steering group visited integration team meetings and made interventions when it seemed that the integration teams were not progressing. A steering group member described their role as follows:

*Our task in this integration group was to facilitate that these integration teams actively worked together. [...] every integration team had one key support person who made sure that this integration team progressed in their work. It was more that they had identified these potential synergies and that it was documented [...]*. This structure worked according to the basic model that they held meetings and we sat there in these integration team meetings for a while so that we got an understanding of how they work together. If they hit their head against the wall we got to open that seam. It was that sort of active interaction.

In some situations, integration team leaders were required to change in order to resolve problems in the integration teams. Problems in the integration
teams were caused by different opinions, power games and cultural conflicts. These issues caused problems for co-operation and required interventions by the steering group. In addition to conflict resolution in the integration teams, steering group members also helped by giving social support to individuals who were suffering conflict situations in their integration team.

*I had discussions with consultants how to handle situations in my team. I had aggressive acquired company task force members who would not have position after this integration process. They gave me support how to handle the situation and how to take their comments. They also gave outside perspective on the integration* (A task force leader from the acquired)

The accountability of integration work also facilitated the resolution of existing conflicts, for which solutions were not hierarchically found. Conflicting views at the executive team level left some integration team assignments open and governance of these integration teams loose. As hierarchical control of these integration teams was unclear and conflicting, synergy target pressures were driving forces in the work of the integration teams. As an example of the problems, I describe difficulties in the integration team where synergies between two different product technologies were considered. This integration assignment provoked a battle in the executive team and resulted in a loose integration assignment with hard monetary synergy targets. The management of the integration team was also left open with two integration team leaders, one from each side. The Dutch director in the integration team did not like the merger or integration assignment at all and strongly refused to co-operate. He did not attend the integration meetings and would not allow his subordinates to co-operate with the Finnish integration team leader. Because of conflicts in integration matters, the executive team did not intervene in the problems of the integration teams.

As the options made the executive team members millionaires and financially independent which was described making them possible to object changes without risking their financial position also high severance pay for second layer managers made them relative free to think how to commit to the merger. In this case the high severance pay arranged for acquired directors made the Dutch director relatively free to execute his own agenda: staying in his position and not changing the organization. The Finnish director, who was accountable for achieving the synergy targets and competing for positions in the company, was experiencing difficulties as the Dutch director had refused him permission to visit factories and did not allow his subordinates to co-operate with the Finnish director. The Dutch director made it almost impossible for him to acquire any information about the acquired. At the end of the integration planning period, integration team members from the
acquired side realised that their director would not survive because of the financial pressures of achieving synergies, and noticed it would be better for them to build relationships with the Finnish director. With the help of cooperation of these integration team members from the acquired, it was possible for him to present reasonable synergy plans. Thus, output pressures eventually facilitated solving this conflict situation.

Close monitoring, high financial pressures and consultation in difficult situations facilitated the tense integration process. Eventually, all integration teams were able to build co-operative relationships and some teams highly intensive collaboration. As trust started to build, it also facilitated controllability of the integration. Next is described how trust and control boosted each other in the unity development process.

4.5 The interaction between trust and control in the unity development process

During the intensive control integration period the merging parties familiarised each other and learned about the opportunities which the merged can provide them. Realising the benefits of the merger, having opportunity to influence on the integration process and being pleased to the neutral integration process eventually reduced hostility and built positive atmosphere in the company. A group vice president from the acquired side describes the atmosphere change on the acquired side during the integration as follows:

_I think gradually people who are still here see by merging we are in a better situation in a global network, which is probably unique. There is nobody else with such a wide product range with such a product portfolio in [the name of] business and such a global network. I think that is something that people realise now. Through these integration teams, people gradually realised it is not so bad as it looked in the beginning... You’ve got to know that [the acquirer] people are not idiots, [by merging] that’s the way for something more._

As the atmosphere changed more positive also trust between the parties started to grow. This clearly improved fluency of the integration work. This was seen in easier controllability, better information-sharing and improved motivation in integration projects, all of which enhanced interaction between the parties, and further advanced unity. This was seen in the progress of the integration teams. A group vice president from headquarter functions describes the development of integration teams.
I think these teams were ambitious because they developed a lot of different action plans. I was sometimes even dizzy with what they invented. I think that the reason for their progress was both the ambitious targets which were set and the learning from each other in these teams in which were people from both companies. Both these targets and learning from each other developed a joyful cooperation and atmosphere of action.

As the result of the atmosphere change and positive co-operation, the integration process succeeded to meet its targets. Despite hostility and conflicts at the beginning of the integration the teams ended up by making integration plans that exceeded initial synergy targets. Moreover, it was described that the merging parties began to commit to common goals and build informal co-operative relationships between each other. An executive team member describes how the integration process influenced the unity between the merging parties.

While in the first integration meeting in Rome in November just after closing the deal … when we reviewed the plans and strategy, there were a lot of tensions between the merging groups and people were speculating and looking for each other. When this same group met in Finland in January when we were going to the [execution phase] all the tensions were away. Everybody knew what the strategy was and what this combination will be.

The established commitment to goals and positive atmosphere were supported by implementing controls. After completion of the formal integration planning process, accounting department was given responsibility to follow interim synergy reporting. This synergy reporting was part of normal monthly reporting during the first year. The integration targets were then introduced into the following year’s budget. The synergy budget made managers accountable for the integration targets. Managers’ progress was followed both by their synergy targets and how they achieved specific milestones such as relocation of machines. Budgets and integration plans were stored by the accounting department, and this department followed their execution and also allocated restructuring provisions. The accountability of the integration projects is described by a group level manager:

It was [a directing effect] because of all those who were operating in areas where overlapping technologies were, and Oceania is a good example of that. Everybody got to think about how to remove costs. They need to consider and commit to specific issues, they need to deliver benefits, not just talk for example about the progress of their integration plan, their budgets and outcomes. It was dealt with in
group discussions that you did this and this project, where it is seen that here was allocated this amount of administrative costs.

To support co-operation between merging parties and to sustain positive atmosphere in the company there were established different hierarchical structures to facilitate intercompany networking. It was seen important that formal structures boosted co-operation as it was believed that without continuous boosting the established formal and informal networking would easily deteriorate. The group had an important role in arranging meetings, as physical contacts were considered important in supporting already established relationships. An executive committee member explained the continuous need for using control systems to sustain relationships:

[Facilitating networks] is a process which needs constant attention, and you need to constantly feed it and make sure that it happens and organise meetings and make sure that people get to know each other, publish data, make comparisons. It’s ongoing progress…. [Informal networking] in the context between people is a kind of battery. You charge the battery when people meet in person yeah then the battery is fully charged and then in a year you can use the power of the battery for telephone contact, for video conference, for email faxes et cetera. At certain moment battery gets lower, then you need again a physical contact to recharge the battery.

Through this facilitation of networking was sustained co-cooperation between the merging parties, introduced opportunities of benefiting strengths of each other and boosted co-operation at the lower organization levels. As the integration process had mainly focused on the higher organization levels, the hierarchical structures established after the merger were also used to facilitate co-operation at the lower levels.

Eventually after two years of completing the merger, as the merged companies had worked together in different forms, the unity between the companies further strengthened. As an example of this strengthened unity, we can regard the need and willingness for formal cultural integration which rose in the merged company. The group vice president from the acquirer explains the situation in the company as follows:

At the beginning of the integration the cultural integration was on the agenda but it was abandoned mainly because of the disagreements at the executive team. Now we are planning to launch the program [three years after the integration] because there is a demand for it. Managers I have met have been asking for statements of values et cetera for couple of years. Our company was never strong with formal
values and statements. The Dutch have delivered these social elements here and we are now ready for them also.

The culture of the merged company has through formally-oriented integration process and working together blended cultural characteristics of both merged companies. This informal cultural integration process made possible the formal cultural integration program. In the beginning, resistance to the cultural campaign (which included a stage where every manager showed to his subordinates a video presentation of the CEO talking about the values of the acquirer company and how to progress according to company values) would have been strong. A group vice president from the acquired side describes the cultural integration that occurred in the merged company as follows:

I have done that [the cultural campaign] with my managers. Now that we have come to this process there is nothing crazy or fun in it. People say let’s do that, that’s how we should progress. That to be done at the beginning people would have said ‘nonsense’. This shows that progress worked because it was done and it was not easy. It was quite easy to show successes — people like to work in a team [...] guys try to say what they think is right, now we have worked together we have developed a new culture [...] what we have now is a new [culture] [...] is not the same as [name of the acquirer] had before, that is true I think people see and respect it. That’s why it is easy for them to accept, they would have fought against it [the cultural campaign] five years ago...

To conclude, this case showed how formal integration process focusing on process and functional accountability developed unity and provided the ground for cultural integration. This formal controls focused process was necessary to stabilise the company, build and encourage co-operation, solve co-operation problems and to familiarise parties. In this formal process trust and controls supported each other. Next section provides a more detailed analysis of the roles of formal and social controls in developing unity.

5 Analysis and discussion

The starting point of this paper was the theoretical ambiguity concerning the development of unity. In prior literature the development of unity has been described being gradual and requiring ex-ante trust (Tomkins 2001). This begged research questions concerning whether and how unity can be established in a distrusting context and can unity be established in a fast non-
gradual manner. In order to study these questions, this research analysed a hostile merger. This empirical study provided evidence of fast development of unity in a distrusting context in which intensive controls played a key role. This section provides a theoretical analysis of this development process. First, in this section I analyse and discuss control, trust and their interplay in the unity development process. Second, I discuss what the factors were which enable non-gradual unity development.

In prior literature the acceptance and functioning of controls has been described being dependent on trust (Barnard 1938; Goold – Quinn 1990; Neu 1991). The findings of this study reveal that intensive controls can become easily accepted and play a crucial role in establishing unity in a distrusting context. Whether controls create or prevent unity depends on the characteristics of controls. This case shows the elements such as impartiality, transparency and value neutrality as important in gaining acceptance and avoiding conflicts in implementation of controls (see Table 1). As a result of these characteristics the implemented controls used in this tense post-acquisition integration had the important role in building relationships between the merging parties, stabilisation of the company, moving direction away from politics to strengthening the merged company and committing parties for mutual action.

Table 1 The elements of acceptance of controls and the avoidance of implementation conflicts in a distrusting context

<table>
<thead>
<tr>
<th>Signaling impartiality</th>
<th>Control system was a widely used common framework and the governance body included both parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating stabilisation</td>
<td>Control system provided tools for co-operation and tight accountability focused attention away from uncertainty and politics to goals</td>
</tr>
<tr>
<td>Avoidance of value incongruence</td>
<td>Control was fact-based and did not involve cultural issues</td>
</tr>
<tr>
<td>Facilitation of participation</td>
<td>Control system provided ability to participate planning and execution of action</td>
</tr>
<tr>
<td>Promotion of transparency</td>
<td>Control system included various communication channels, meetings and ability to discuss about the direction of the organization</td>
</tr>
</tbody>
</table>

Prior research focusing on unity development in a trusting context has not provided evidence about how to support unity in a distrusting context. This
A study found that both hierarchical and output controls after being accepted and having stabilised the tense political context also functioned favourable in creating commitment and goal congruence. As shown in Table 2, hierarchical controls promoted goal congruence and commitment directing attention to goals, assisting in conflict resolution, creating positive atmosphere and promoting co-operative relationships. Whereas output controls promoted goal congruence and commitment through participation to target setting and accountability of these targets.

Table 2  Hierarchical and output controls promoting goal congruence and commitment in a distrusting context

<table>
<thead>
<tr>
<th>Hierarchical controls</th>
<th>Output controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating commitment and stability</td>
<td>Process and monetary accountability pressurised to work for common goals.</td>
</tr>
<tr>
<td>Solving tensions and obstacles</td>
<td>Bottom-up process in integration goal-setting committed to integration process and building a united company. Iteration rounds were used to align teams’ goals toward common targets. Integration incentives and reporting directed behaviour toward accomplishing common integration targets.</td>
</tr>
<tr>
<td>Facilitating commitment and atmosphere of impartiality</td>
<td>Governance elements provided transparency, the ability to participate and feelings of fair behaviour facilitating a positive atmosphere and creating trust toward the company. Hierarchical structures familiarised parties with each other, providing grounds for co-operation and trust.</td>
</tr>
<tr>
<td>Initialising co-operative relationships</td>
<td></td>
</tr>
</tbody>
</table>
In prior research formal controls, hierarchical and output controls, have been described promoting trust only if ex-ante trust exists (Klein Woolthuis et al. 2005; Vélez et al. 2008). If ex-ante trust does not exist, the use of formal controls has been argued having a negative influence on trust. This study found both formal controls having a critical role in establishing trust in this distrusting context. The intensive use of formal controls facilitated trust both between the tense parties and toward the merged company. Formal controls had their own functions in promoting trust see Table 3. Hierarchical controls promoted trust by providing elements for stable operating environment, facilitating collaboration and supporting commitment and positive atmosphere. Output controls facilitated trust by offering incentives for co-operation between parties, communicating capability and direction of the company and providing evidence of the success of the merger.

Table 3    Formal controls promoting trust

<table>
<thead>
<tr>
<th>Hierarchical controls promoting trust</th>
<th>Governance systems promoting stability, impartiality and transparency, and providing a basis for co-operation, develop trust within the organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating a stable and neutral operating environment</td>
<td>Hierarchical meetings used to create positive atmosphere promote trust within the organization</td>
</tr>
<tr>
<td>Facilitating atmosphere</td>
<td>Hierarchical governance involving participative elements commit individuals and develop their trust in the organization</td>
</tr>
<tr>
<td>Developing commitment</td>
<td>Hierarchical structures familiarising parties with each other, facilitate trust development between parties</td>
</tr>
<tr>
<td>Familiarising parties</td>
<td>Hierarchical structures play an important role in sustaining already developed trust relationships</td>
</tr>
<tr>
<td>Sustaining relationships</td>
<td>Hierarchical interventions help in solving conflicts and building trust relationships</td>
</tr>
<tr>
<td>Facilitating conflict-solving</td>
<td>Hierarchical interventions can be required to legitimise sharing and asking for help, which have a positive influence on trust development</td>
</tr>
<tr>
<td>Decreasing barriers between competitive parties</td>
<td></td>
</tr>
</tbody>
</table>
### Output controls promoting trust

<table>
<thead>
<tr>
<th>Facilitating transparency</th>
<th>Output controls providing transparency of goals, targets and achievements reduce dissymmetry of information and promote trust toward the organization.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting co-operation</td>
<td>Output measures creating incentives for co-operation facilitate development of trust within the organization.</td>
</tr>
<tr>
<td>Creating commitment</td>
<td>Output targets providing commitment for same organizational goals reduce risk of misbehaviour and facilitate trust between individuals.</td>
</tr>
<tr>
<td>Facilitating participation</td>
<td>Output controls providing opportunity for participation create commitment and trust toward the organization.</td>
</tr>
</tbody>
</table>

These formal controls were also recognised to create a positive cycle of increasing trust and control. Both hierarchical and output controls promoting trust increased acceptance and the use of controls, which further facilitated the development of trust creating a spiral of increasing control and trust. These findings contradict with prior research. In extant theory, the relationship between distrust and formal controls has been described with a spiral of increased distrust and formal controls (Ouchi 1979; Enzle & Anderson 1993).

There has been ambiguity concerning what is the role of social controls in developing unity. In prior research social controls have been described as effective in establishing trust. These studies, however, have been purely theoretical (Das & Teng 2001), or described situations in which parties have ex-ante trust (Langfield-Smith & Smith 2003; Dekker 2004). This begged a question whether and how social controls can promote trust in a distrusting context because social controls are based on shared values and norms. As shown in the case, the distrusting context not only hampers executing social controls but also puts their use in risks. Political and cultural tensions at the executive team hampered the use of social controls in making appointments, the implementation of cultural integration, the demonstration of common goals and the setting of examples. The use of social controls in trying to build shared beliefs and norms would rather have created greater tension than promoted relationship development.

In prior theory the development of trust and control has been described as a gradual information acquisition process which requires ex-ante trust (Tomkins 2001; Vélez et al. 2008). As this research recognised that both trust and control were developed fast in a distrusting context, it begs questions concerning which are the facilitators and blockers for the development of trust.
and control. This research noticed the development of trust and control being dependent on value and goal neutrality. If parties do not disagree concerning the values and goals they are able to establish trust and accept control although they would have ex-ante distrust. This was recognised in the management of integration process. Hierarchical and output controls were used in a neutral and transparent manner to create accountability and incentives to support commitment for goals. As the merging parties recognised the benefits of the merger and had ability to influence on target-setting most of them agreed about the goals. Value incongruence was avoided cancelling the formal cultural integration process and executing the integration process in a merger-of-equals manner. As a result of achieving value and goal neutrality, the merging parties were able to establish trust between parties and accept highly intensive formal controls despite ex-ante distrust. Value and goal incongruence block the development of trust and acceptance of controls. This was recognised in the executive team where disagreements concerning values, especially, the governance style and culture of the merged company hampered the establishment of trust and the acceptance of authority of the CEO of the merged company. Value incongruence hampered also commitment to goals and co-operation although the parties mainly shared the objectives of the merger.

6 Conclusions

This study provides evidence that fast unity development is possible in a distrusting context. It depends on value and goal neutrality. When parties find goals they can agree and there is no disagreements concerning operating culture such as working methods and governance style, unity can be established quickly despite ex-ante distrust. This means that unity development is not dependent on gradual information acquisition and ex-ante trust which have been the building blocks of prior unity development theory (e.g. Tomkins 2001; Vélez et al. 2008).

This study also concludes that the intensive use of formal controls can support trust development in a distrusting context. Neutral and transparent controls can be used to stabilise the operating environment, familiarise parties and create positive atmosphere and allow participation to target setting and create goal congruence in order to motivate working for mutual targets. Formal controls inhibit trust development when they are not value-neutral, for example, when they signal distrust, partiality or contradictory values and do not provide committable goals.
This study also concludes that social controls, which have been regarded as positive for trust development, involve risks for unity development. Social controls being based on values and norms can create value incongruence between parties. This inhibits development of trust and commitment to common goals. Social controls support unity when parties share same values but when they do not; value neutral control mechanisms such as non-value laden formal controls are a better alternative for governance.

References


Neu, Dean (1991) Trust, contracting and the prospectus process. *Accounting, Organizations and Society*, 16 (3), 243–256.


HUMAN RESOURCE MANAGEMENT IN CROSS-BORDER ACQUISITION PROCESS – VIEWPOINT OF HR RESPONSIBLE IN ACQUIRING COMPANY

Hanna-Mari Planting

Abstract

Acquisitions have increased dramatically during the past decades and they have become part of everyday business life. The objective of this study was to analyze the human resource management activities and challenges in different phases of the cross-border acquisition process. The theoretical framework of this study was based on the three stages of the acquisition process, and this qualitative study was conducted by using a single-case design. According to the main findings of the study, there proved to be no clear HRM strategy in acquisitions. During the pre-combination stage, the involvement and contribution of the HR function is very limited or non-existent. There is very limited HR due diligence, as the focus is on financial and legal aspects. The role of the local HR function tends to be more of a supportive one, in both the combination and post-combination stage. In all the six case acquisitions, previous owners left the company because of the acquisition. The owners turned out to be the biggest obstructers of change; otherwise the feedback from employees after the acquisition has been positive. It could be concluded that there is a missing HRM toolbox and a full-scale HRM process in managing acquisitions.

Keywords: HRM, cross-border acquisitions, HR function, learning

1 Introduction to cross-border acquisitions

Cross-border mergers and acquisitions (M&As) have become the dominant mode of growth for companies seeking competitive advantage in today’s complex and global business economy. Global M&A deals over the last ten years (from 1996–2005) add up to $23.400 billion. According to IMF, this

---

This article is based on the findings of the M.Sc. thesis of the author at the Turku School of Economics.
figure is higher than the value of GDP in the EU27 during the year 2009. However, due to the financial crisis, the numbers and values of M&A deals have decreased in 2008, after the five-year boom ended in 2007. As a consequence of the crisis, cross-border M&As have experienced a decline of 35% in their value from 2007 to 2008. (World Investment report 2009, 10.)

Several earlier studies on M&As indicate that the failure rate of M&As varies between 30–80%, and it has been argued that in average around half of M&As deals prove to be financially unsuccessful and fail to deliver the planned synergies (Cartwright & Cooper 1992, 1; Erez-Rein, Erez & Maital 2004, 22; Hitt & Pisano 2004, 45; Teerikangas 2008, 12). Even though M&As do create economic value and the stockholders of the acquired company gain the most, it is very difficult for the acquirer in the long-term to achieve the planned performance objectives (Erkkilä 2001, 31, 194). Acquisitions are not only about acquiring other companies’ assets, technology and earnings. Usually, human resources (HR) are the key element in them. (Kiessling & Harvey 2006, 1308.) Acquisitions represent major challenges in terms of managing human resources and many organizations underestimate the complexities involved in them (Dowling & Welch 2004, 12).

Human resource management (HRM) strategy and policy have both important strategic roles in the success of M&A, but they are often neglected, as the focus is on other factors such as market access or financial considerations (Pribilla 2002, 309). Cross-border M&As have become an increasingly important strategy for many companies around the world. In order for the deal to succeed, it is very important that the human resource management strategies are aligned with the overall business strategy, as human resources have the potential to be a source of sustainable competitive advantage. (Wang & Shyu 2008, 93.) Nevertheless, it has been quite difficult for HR functions to prove to the organization how their activities and processes add value (Guest, Michie, Conway & Sheehan 2003, 291–293).

Cross-border acquisitions are complex change processes that create challenges for the whole organization, particularly for the employees. This is the reason why HR managers need to be involved in the process intensively throughout the whole process. (Antila 2005, 167.) Only when integration issues begin to emerge, the human aspect is then more closely examined. This means that in many cases HR managers are not included in the initial decision phase. (Pribilla 2002, 309.) This fact also enhances the relevance of this study.
1.1 Objective of the study

Acquisitions remain an interesting subject of research, even though a lot has been written about them during the last 30 years. This study is based on a case company and the focus is on the local HR responsible who has been part of the acquisition process in the acquiring company.

The objective of this study is to analyze human resource management activities and challenges in the different phases of the cross-border acquisition process. This analysis will be done from the process approach and the three stages of the acquisition process are discussed in greater detail. The objective of the study is further divided into three sub-questions:

1. What are the HRM activities and challenges in cross-border acquisitions?
2. What has been the level of involvement of the HR function in different phases of the cross-border acquisitions?
3. How can learning be enhanced through management of these HRM activities in cross-border acquisitions?

It is interesting to study the whole cross-border acquisition process, and all the phases in it are as equally important. Haspeslagh and Jemison (1991, 164) emphasize the process perspective by stating that strategic fit of the acquisition forms the basis of the potential for value creation, but the actual value creation underlies in managing well the acquisition process.

1.2 Introduction of the case company

The case company has a great deal of experience in cross-border acquisitions, as acquisitions have been a significant part of their growth strategy since 2001 to either expand product portfolio or geographical locations. It is a global player with a well-recognized brand in technology industries and it operates in the field of manufacturing of goods and services. On a global scale, it is medium-sized personnel-wise, and it has grown rapidly for about a decade. On average there have been seven acquisitions per year before the economic downturn. This research concentrates on recent acquisitions in one of the divisions, specialized in providing product-related services and product improvements. These six recent acquisitions are located in Europe and Asia.

The case company in this study will remain anonymous due to the fact that a lot of the information about cross-border acquisitions is delicate. It will be referred to as Delta later on in this article. Moreover in this study, HR managers are also called HR responsible due to their position in the case
company, even though their titles are officially HR directors. This is because of the matrix organizational structure.

2 The human resource aspect in cross-border acquisitions

2.1 A three-stage model of the acquisition process

Mergers and acquisitions can be approached from different perspectives. When the realization of strategy in an organization is constantly an acquisition, the acquisition becomes a process. In other words, the organization tries continuously to develop its knowledge about the cross-border acquisition process and create means and procedures for their future acquisitions. (Erkkilä 2001, 22–23.) In the process approach, the acquisition itself does not bring the expected benefits; instead it is the actions and activities of the managers after the actual acquisition that determines the outcome (Haspeslagh & Jemison 1991, 12).

At the beginning of the acquisition process, it is necessary to define strategic and organizational fit between the two companies. Strategic fit refers to the degree to which the target company complements the acquirer’s strategy (Shelton 1988, 280). In other words, strategic fit is considered as the link between performance and strategic attributes of the two joining companies and also how the target company’s business should be related to that of the acquirer. Strategic fit between organizations can indicate potential for value creation (Nupponen 1995, 169). Very and Schweiger (2001, 19) state that one challenge for the acquirer has been to find target companies with a strong strategic fit, especially in cross-border acquisitions.

Organizational fit, in turn, refers to the match that exists between administrative and cultural practices as well as personnel characteristics between the two joining companies. The important element of organizational fit is the extent of compatibility of the management style both in the acquired and acquiring company, as management styles are unique in all companies and they can vary a lot. (Datta 1991, 54.) Discovering strategic and organizational fit as well as potential synergies does not mean necessarily mean that the two joining companies will behave the same way as expected before the deal. Also, finding a fit does not automatically lead to a successful outcome of the acquisition. (Risberg 2003, 2, 7.)

It is quite challenging to exactly determine where one acquisition phase ends and next one begins. This is because often one phase might overlap with another phase, and it might not correspond with time (Risberg 2003, 4). Very often, pre-combination phase, integration phase and post-combination phase
are reviewed as separate entities even though the end result of the acquisition process is the outcome of all the three phases (Jemison – Sitkin 1986, 161). The acquisition process will be presented through the three-stage model of acquisition process, created by Schuler and Jackson (2001) because it pays a lot of attention towards HRM issues during the whole acquisition process. They key HRM issues that arise during the cross-border acquisition process vary to some extent depending on the specific circumstances or types of the cross-border acquisition under consideration (Schuler, Tarique & Jackson 2004b, 112).

2.1.1 Pre-combination stage

The pre-combination stage includes all of the activities that take place before the acquisition is fully legal. This stage includes processes such as determining the reasons for becoming involved in the acquisition (as an acquirer or a target), searching for possible and suitable partners domestically or across borders, evaluating the alternative target companies, selecting and then negotiating with a specific target, and finally planning for the eventual realization of the deal. (Schuler & Jackson 2004a, 86–87.) Organizations have differing motives and strategic objectives to perform acquisitions, such as growth, vertical integration, diversification and economies of scale (Buono & Bowditch 2003, 3). Pre-combination stage begins once the decision about the acquisition is made.

Cross-border acquisitions create extra challenge for due diligence, as environmental factors such as political, cultural, legal and social aspects can complicate the acquisition process (Hitt & Pisano 2004, 49). When the acquirer is buying capabilities, the intangible assets are highlighted. Often, companies tend to concentrate more on financial matters rather than organizational and people related matters. (Harding & Rouse 2007, 124–125.) The most obvious consequence of not conducting HR due diligence during pre-integration is a significant loss of talent right after the deal has been announced. Without an early assessment of key talents, companies can acquire targets with a lower level of skills than expected or that is more likely to leave the company after the acquisition. This can result in delays after the announcement of the deal, when deciding on the structure and management team in the acquired company. (Stahl, Pucik, Evans & Mendenhall 2004, 101.)

Once the target company has been selected and the negotiations and initial due diligence has been conducted, integration planning starts. This integration planning process should be based on the motives behind the deal itself, as well as on the vision about the future. (Erkkilä 2001, 28, 72.) Key emphasis should
be based on retention issues of key employees and capabilities, cultural integration, reducing employee resistance and minimizing stress related symptoms (Waldman 2004, 194). Integration planning should involve a decision about the level and schedule of integration, who is responsible for integration and who contributes to it, as well as personnel systems. Preparing well the task list, communications, and appointing future roles and responsibilities before the actual integration phase can help the kick-off the next stage of combination and integration. (Pribilla 2002, 324–325.)

2.1.2 Combination stage

Second stage of the acquisition process is known as the combination stage - integration of the partners (Schuler & Jackson 2001, 243). The term combination refers to the integration of the two joining companies. The type of strategic fit found between the organizations determines the type of the integration process. In other words, a different type of acquisition might require a different type of post-acquisition integration.

According to Birkinshaw, Bresman and Håkansson (2000, 396), M&A success depends mostly on post-acquisition integration. Post-acquisition integration can be divided into task and human integration. Essential is to find the balance between these two. Task integration refers to how the value-adding activities of the two companies are integrated in order to create synergies. Task integration can be also referred to as operational integration of the organization, i.e. integration of “organizational infrastructures”, such as practices and systems. Human integration refers to the softer issues of integrating cultures and values, which takes most time and most difficult to manage effectively. It is the process of creating positive attitudes and shared identity among the employees of the two companies. Furthermore, a slower approach, which emphasizes human integration, would ease task integration and lead to a more guaranteed level of acquisition success. (Birkinshaw et al. 2000, 399–400, 419–420.)

In order for the integration to succeed, it is important that an “integration manager” is appointed and is part of the acquisition process throughout the whole acquisition phase (Erkkilä 2001, 68). Moreover, Soderberg and Vaara (2003, 13) claim that post-acquisition integration process is hard to conceptualize and even harder to manage. Despite this, a lot of organizational and management literature seem to oversimplify the actual organizational and managerial problems and challenges that rise in the process. This is one of the main reasons why a lot of post-acquisition integration processes do not succeed in delivering the planned synergies.
2.1.3 Post-combination stage

The level of integration and the integration approach will vary depending on the strategic intent of the acquisition, what the synergies to be captured are in the acquisition as well as the different types of assets and personnel involved in the acquisition. (Schweiger & Lippert 2005, 22.) Integration is always a change process and it might take a longer period of time for employees to adapt to it and for new infrastructure and processes to be implemented than it was originally thought. (Erkkilä 2001, 180.) Along with changes in strategy and leadership, the corporate culture also changes.

Leadership issues have been cited as one of the main reasons for M&A success, even though not much research exists on it (Sitkin & Pablo 2004, 191; Waldman 2004, 195; Sitkin & Pablo 2005, 210). Committed and open-minded leadership is important, as integration involves change. Therefore, a strong leader to drive the change effort is required. (Schweiger 2002, 17.) According to Krug and Shill (2008, 16, 20), acquisitions tend to destroy long-term leadership continuity in the target companies, which means that the target companies experience high rates of executive turnover soon after the acquisition. Furthermore, long-term instability in leadership is considered to be harmful to the integration process and long-term acquisition performance. Implementation of strong and clear leadership is crucial; especially when the acquisition goals and motives might be unclear to the employees. Integration process can be hindered by a lack of clear leadership. (Olié 1994, 386; Evans & Pucik 2005, 413.)

There is no definitive timeframe for the acquisition to move into this third stage because it is dependent on how successful and fast the combination stage occurs. In best-case scenarios, the post-combination stage begins a few months after the announcement of the acquisition. In worst-case scenarios, this stage begins a few years after the deal has taken place. (Greenberg, Lane & Bahde 2005, 58.) Moreover, this last stage of the acquisition process is a very time-consuming process, often measured in years (Buono & Bowditch 2003, 101).

The details of the acquisition and its likely implications for the employees need to be communicated clearly. (Edwards & Rees 2006, 111.) In cross-border acquisitions, this is even harder due to the embeddedness of companies going through acquisitions in their respective national contexts (Aguilera & Dencker 2004, 1356).
2.2 Involvement of HR function in cross-border acquisitions

The HR function has become more business oriented, more strategic and more oriented towards organizational change, which explains the shifts in changing human resource management roles (Paauwe 2004, 183). Effective HRM is also considered as a major determinant of business success or failure in international business (Scullion & Starkey 2000, 1061). In cross-border acquisitions, the HR managers have a very challenging role in integrating HRM practices as well as in playing a more strategic role for company-wide integration, and at the same time having a support role for business unit transaction. According to Antila (2006b, 999), the major challenge in cross-border acquisitions has been the management of people.

Ulrich (2007, 47–54) has defined four roles of strategic partner, administrative expert, change agent and employee champion that are applicable for HR managers in order to contribute to added value. If HR function is involved in the process during the pre-combination stage, HR managers have different roles to play. In this stage, the HR function is involved in the post-acquisition integration planning as well as decision-making. If HR managers are acting as strategic partners, the HR function is involved in the acquisition strategy planning and negotiations, where the risks related to human resources are assessed. The HRM challenge is about assessing fits of the organizations and preparation for managing the acquisition process. As a change agent, HR managers take part in the integration preparation process. All HR-related analysis during the due diligence process is the task of an administrative expert such as analyzing the company profile as well as compensation and benefit schemes, i.e. the hard issues. When HR managers act the role of employee champions in the pre-combination stage, they deal with tasks such as communication preparation and due diligence of auditing cultural and employee related facts, i.e. the soft issues. (Antila 2006a, 53.)

In the combination stage, HR function promotes integration by managing the change process. As administrative experts, the HR managers are also responsible for designing and implementing different HRM policies and practices. Fast implementation and integration of these will reduce the level of uncertainty in the organization, enhancing employee motivation. The main HRM challenges are related to the strategic decisions of the acquisition, such as the level of integration, as well as the degree of human and task integration. Retaining key employees and motivating employees in the organization is the task of an employee champion. Furthermore, an employee champion aids in creating new leadership in the organization. Managing employee uncertainty is one of the most important tasks HR function can have. (Pribilla 2002, 310.)
The role of HR managers as change agents is to manage the change process and integrate cultures. As a strategic partner in the combination stage, HR managers take part in creating new strategies for the organization. (Antila 2006a, 53.)

In the third stage of post-combination, the HR function assesses the acquisition process altogether and solidifies the new organization. Major work by the HR function is related to assessment of the new culture, employees, and HRM policies and practices that have been implemented. The role of a strategic partner is related to assessing new strategies. Furthermore, they need to monitor the success of the integration. The role of an administrative expert is related to assessing the new implemented HRM policies and practices, new structure and solidifying staffing. As an employee champion, the HR function is responsible for assessing employees and solidifying leadership. Change agent in turn is responsible for assessing new culture of the organization. It is evident that all four roles need to learn from the process. It is important to note that even if the HR managers do not have a strategic role in the cross-border acquisition process, they can still bring added value to the acquisition. By being involved early on in the process and managing well the operation issues such as administrative and employee-related matters, HR managers can make a difference. (Antila 2006a, 53, Antila 2006b, 1017.)

2.3 Learning in cross-border acquisition process

As the M&A activity seems to increase in the global economy, learning from the acquisition process could be considered as a key source of competitive advantage (Shimizu, Hitt, Vaidyanath & Pisano 2004, 347). However, the actions that led to a positive outcome in one acquisition process do not necessarily mean that the future acquisition process will also have a positive outcome. Therefore, it is important that prior experience is carefully examined so that the differences are seen in the previous and new circumstances. This is especially the case in cross-border settings where the cultural and social contexts are different. (Björkman, Tienari & Vaara 2003, 203, 226.) Companies that have operations in a foreign country are more likely to acquire a company within the same country. Therefore, Collins, Holcomb, Certo, Hitt and Lester (2009, 1333) argue that organizational learning occurs through operations in a country. Companies are trying to become familiar with the local market and increase their knowledge about opportunities and constraints in the country.

To consider the acquisition process as a learning process has been adapted by many organizations. In organizations where acquisitions are considered to
be an important part of their growth strategy, the aim to develop their planning and implementation of the acquisition process is important. Thus, create a learning process for the organization. (Erkkilä 2001, 194.)

Very and Schweiger (2001, 25) suggest that learning in acquisitions is a double-level process. Learning can occur through previous experience as well as through the target companies and their environment. Learning should be enhanced at the end of the acquisition process and people involved in acquisitions should be able to use the new knowledge they obtained in the future deals. Once the acquisition process has been completed, the new knowledge created through this process should be kept and valued for the future deals in order to create more added-value and improve the process even more. Furthermore, learning is dependent on communication and information shared between employees in the organization.

3 Conducting the empirical study

The research approach used in this study is qualitative due to the nature of the study, as the idea was to obtain as much information as possible as well as leave space for unexpected issues that arose during the interviews. This is further motivated by the fact that each acquisition can be unique in many aspects, thus similar acquisitions do not exist (Erkkilä 2001, 21).

Three preliminary face-to-face semi-structured interviews were conducted in October 2009 with HR responsible in Finland. For the five main interviews of this study, the *semi-structured theme interview* was chosen as the method of collecting data. Questions were decided in advance, and they were organized under different themes corresponding to the research questions. The interview questions and themes were previewed by the assigned contact person in the company. The main five interviews took place in February–March 2010 through Microsoft Office LiveMeeting with the local HR responsible.

The selection of suitable interviewees was discussed with the assigned contact person in the company. The interviewees were selected based on their position in the company and on their role of HRM and cross-border acquisitions. Moreover, the interview data was first organized by time-series analysis and then by themes that the researcher considered most relevant.

In addition to the interviews, the researcher looked into the company documents such as formal annual reports that can be found on the company’s webpage or intranet. Also, less formal documents and background information given by the contact person about the case company were examined, as well as internal documents. The secondary and confidential documents that were studied are all related to the acquisition process in the case company, HRM
issues, task lists and plans of due diligence and integration. This secondary material was helpful and informative, and it also increased the trustworthiness of the study.

4 The main research findings

4.1 HRM activities and challenges in cross-border acquisition process

During the pre-combination stage, local HR function itself does not get involved in the strategic part of deciding on the target company. Local HR function does not either have any influence on the decision making process of whether to buy or not the target company. These two factors are related to the HRM activity of not being able to conduct due diligence and assess people and risks lying within them before the deal takes place. Moreover, most of the interviewees had difficulties in defining what Delta’s HRM strategy for acquisitions is. According to most of them, there is none.

The ideal is that HR function would participate in the evaluation phase of the potential target company and perform HR due diligence. However, in Delta, HR due diligence does not exist on its own. Parts of HR due diligence are inbuilt in the legal due diligence process, but typically local HR responsible are not invited to participate in the process. In many cases, due diligence was carried out by external lawyers, where they highlighted the risks they observed, and then briefed the HR responsible about it afterwards. Obviously it is very difficult to receive information about the company culture and management style, especially in a small company of approximately 30 people. Some of these smaller companies might not even have proper reporting systems, so such information might not even be available.

When the local HR function is involved in due diligence, it goes through different HRM practices such as workforce analysis, age distribution, management/executive contracts, compensation and benefits, employee turnover and pension plans in order to know the target company and the potential risks it has. One interviewee clearly said that when s/he saw the due diligence report, only the minimum requirement concerning people was done.

I don’t even know if anyone has done human due diligence. If they have, they have done that in total secret because I have not seen any evidence afterwards.

All the interviewees pointed out that HR function needs to be involved earlier in the acquisition process. It is the job of the HR function to make sure that the target company has been run well HR-wise. Therefore, involving HR function into pre-acquisition phase would mean that at least the risks related to
people are analyzed, and not transferred into the acquirer causing financial risks in the long-run. As one interviewee pointed out:

“Our job is more or less to do consequential damage control... of course there are always risks within finance with the on-going project. But at least with my experience in acquisitions, the biggest risk is laying on people.”

Right after the announcement of the deal, local HR function’s role increases and its main integration work begins. Limited information that has been available in the pre-combination stage can create challenges for this stage. For instance, when the new HRM policies and practices are being formed, it is very important that the local HR function has all the necessary and correct information regarding the acquired company. It gets very problematic if such information is not available. When the local HR function has not really been involved in the pre-acquisition stage, it is only now that it can start to analyze factual things about human resources that could have already been analyzed earlier.

New locations that have been created with the acquisition also create challenges. When the acquired businesses have been far away from Delta’s earlier locations in the target country, it has taken a considerable amount of time to travel back and forth. Sometimes, this has been time-consuming and taking up a lot of effort. All the interviewees pointed out that it is even harder to manage the acquisition with distance, since nobody from Delta can be there during the whole process due to resourcing issues. The employees are sometimes left too much on their own and therefore, they might not fully understand the acquisition because of insufficient talking and training. Two interviewees further pointed out the fact that they have the impression that sometimes the top management team and the corporate M&A team do not take into consideration how much time actually an acquisition takes off the HR responsible’s time, and how hard it is to continue working with the existing workload and the workload coming from the acquisition.

The speed of integration and targeted level of integration bring more challenges to managing well the acquisition. Differences in answers considering the speed of integration came up. Some of the interviewees emphasized the importance of integrating as quickly as possible, where as others emphasized slower integration approach in order not to drive away the key employees. However, contradictory in the answers was the fact that the local HR function had received instructions from the corporate M&A team either not to get involved in the acquisition or not to push the acquired employees too much. Therefore, if the local HR function is told not to press them too much, the speed of the integration cannot be fast.
During the post-combination stage, the integration work that was started during the combination stage continues. The role of the local HR function as a *supporting* function to both the managers and employees of the company was emphasized at this stage by all the interviewees.

In each acquisition case, there has been major resistance to change. In all the cases, the owners and managers have left the company. This is an important improving point for Delta. However, sometimes it had been a strategic decision to pay the managers to leave. In all the cases, Delta has lost key people. Reasons for leaving are related to the fact of wanting to retire, not being able to adapt to Delta’s culture, as well as the management and leadership style being too different. It was also claimed that the change is too big for the previous owners of the small companies to become part of a new corporation.

In addition, the importance of leadership after the acquisition was highlighted by the interviewees. Leaders need to be enthusiastic and be able to see how to work in the future and motivate employees to get there. Managers need to take the roles of change agents, as one interviewee pointed out. When the interviewees were asked to define their own role during the post-acquisition integration process, all defined it as a support role. One interviewee added that the role is a supporting and listening role combination.

4.2 Involvement of HR function in acquisitions

In the pre-combination stage, there exists an HR due diligence checklist by the corporate M&A team that consists mainly of “hard” issues such as payroll information, headcounts and employee contract types. This list was given by the corporation to the local subsidiary, which is then completed with the local specific issues rising up in the country of the acquisition. However, this checklist does not include “soft” issues such as assessing leadership, management styles and culture, to a great extent. It was clearly pointed out by several interviewees that HR due diligence of hard issues is done to some extent before the acquisition but due diligence of soft issues is only done after the deal has taken place. This can create substantial risks for the company, as then it is too late to get away from the deal.

It is the local HR function of Delta that handles the operational integration locally, whereas business and corporate HR function of Delta act more like consultants in the process. Also the corporate M&A team has an advisor role. It was pointed out that the integration planning does not start early enough; it is either some days before or after the announcement of the deal. Earlier
preparation could make the process more efficient and also better plans could be made regarding employees, their retention and so forth.

After the deal has taken place, the local HR function begins to implement Delta’s strategic HRM processes. For instance, setting up a new payroll system is one of the first tasks to do, immediately after the announcement of the deal. What can create problems is the fact that the local HR function needs to have all the information concerning matters like employment contracts, salaries and social securities. There is substantial amount of legislation in acquisitions, and the employees have the right to maintain the same conditions they had in the previous company, so the HR function has to make sure that these conditions will not be deteriorated.

The previous owners and managers have been given contracts already before the deals took place stating that they need to leave. In one case, the owner was given the chance to leave voluntarily or be dismissed. Confusing thoughts came up with retention issues, and to what extent financial retention takes place. One of the preliminary interviewees said that each acquisition has a customized bonus retention system for the transition period of normally either one, two or three years, where the bonus system only depends on the result of the acquired company and not the whole organization. It could be argued that retention by money is very common, even though there is not a standardized way of doing so; it is more examined case-by-case. However, another interviewee pointed out that only a few people were given financial retention, as in the retention plan more emphasis was given to issues related to job contents and positions. Third interviewee pointed out that retention by money was a mistake, as they wanted those managers out of the company after that period of time. It is interesting to note that most of the interviewees clearly pointed out that they do not consider appointing key managers from the target company into key positions in the new organization as a good thing.

During the combination stage, an important HRM issue for a successful integration is to select an integration manager. In the preliminary interviews, one interviewee pointed out that one of the biggest challenges is to find the responsible people for the integration and release them from their present-day duties. After that, place them in the acquired company. In five out of six acquisitions that the case company has done, a full-time integration manager has not been considered necessary due to the small sizes of the target companies. What however is important is that someone has the role of it.

Positive factor during combination stage was the recognition of the importance of human integration as well as task integration. Even though soft issues have not been addressed before the acquisition, now they are taken into account. Also, task integration has been quite a smooth process despite some problems in implementing SAP and other strategic processes.
The target company’s employees need to feel welcome to the new organization in order to minimize change resistance. Welcoming event has been a tradition in the five European acquisitions. The welcoming event is about making Delta familiar to the new employees, explaining them their story and warmly welcoming them into the organization. However, one interviewee mentioned:

_You should be very aware of how big celebration factor you put into this... because for many of the acquired people, it’s more like a funeral than a celebration._

Maintaining motivation among the employees is vital. It takes a lot of discussion and communication. It is also very important to be present in the acquired business, even though the acquirer might not have answers to all the questions. It is essential to communicate to the employees that it will take some time to implement the integration. Very often, there is a big change in the way of working, templates and in decision-making, as the acquired companies have been relatively small. Suddenly, for instance, the employees in the acquired company need to be using IT-systems that are made for thousands of people, whereas before those systems they used were for approximately 30 people. There have been many formal as well as informal meetings and gatherings where the managers from Delta have tried to introduce themselves to the newcomers the organization in a positive way. Moreover, development discussions have been conducted between the managers and employees.

4.3 Learning from managing HRM activities

Learning has also been considered as one of the main challenges in acquisitions. Delta has a solid history of being an acquirer, therefore it is even more important to learn from its previous acquisition experiences and use that knowledge in the future. It was interestingly pointed out by one interviewee that the local HR function itself also needs feedback in order to improve its activities. It is worthwhile to note that in the cases where the business HR function has been part of the pre-combination stage in the company, it has proved its role to be a valuable player, since some big mistakes have been avoided.

Limited resources in the local HR function can hinder the integration process. The interviewees mentioned that they sometimes feel that the workload they have during an acquisition is too much, since the acquisition brings complementary tasks to handle in addition to their normal daily duties. Especially, when the local HR responsible needs to travel to other locations,
there is not simply enough time to do all the necessary tasks. One interviewee mentioned the challenge of not being present in acquired company during the integration, by saying:

*It is difficult to teach them the Delta way of working if you are only there now and then, not 100%.*

People need time to adapt to the new organization and way of working. Some people will be ready in six months, others will never get there. This also applies to the managers. One interviewee interestingly pointed out that they have taken away managers after realizing that this person is not suitable to be Delta’s manager.

After the integration, the acquisition project is evaluated. Even though most measures of acquisition success are financial, the outcomes have also been analyzed from a HRM point of view such as using employee satisfaction surveys. The interviewees emphasized that employee satisfaction surveys are done in the acquired company. Until now HR function has achieved its goals reasonably, as the results from these surveys do not clearly differ. Also the feedback from employees has been positive.

Even though owners and managers have been lost with the acquisitions, the interviewees did not consider that important knowledge was lost. They claimed that knowledge has stayed in Delta. It has been a strategic decision to dismiss the previous management team due to reasons such as not having the right working attitude for a large corporation. The previous owners and managers have had more of an entrepreneurial work attitude.

Business competences of HR managers are increasingly important, especially in acquisitions across borders. However, two interviewees pointed out that their own knowledge of managing acquisitions was limited before. It could be argued that no clear instructions have been given to HR responsible involved in acquisitions, as well as the communication between the M&A team and local HR function being quite poor. One interviewee summarized it well:

*I really had limited information of how am I going to do this. So I used my own resources to find actually the way for HR to integrate these people.*

Throughout the years, it could be summarized that some learning has occurred in Delta. For instance, before 2006, Delta did not have as a standard post-acquisition integration plan. Prior to 2006, the responsibility was just transferred into the local management of the division and it was just wished for that they would integrate successfully. Furthermore, acquisitions now are more structured than before.
Two of the interviewees emphasized the importance of having a HR person
in the corporate M&A team as a necessity, if Delta is to perform more
acquisitions in the future. The statement below from one interviewee
summarizes well the whole research:

People doing acquisitions must open their eyes for the value of
organizational change management and involve HR in it

4.4 Model for managing HRM activities in cross-border acquisition
process

In order to illustrate the cross-border acquisition process that was researched,
next a model for managing HRM activities in cross-border acquisitions is
presented. It is based on previous literature on the topic as well as on research
findings. The main differences among the theory and research findings are
related to the pre-acquisition stage. Fits assessment is limited and HR function
is not involved in that. Furthermore, HR due diligence is not done, or the
minimum requirement concerning the “hard” people issues is carried out by
lawyers. With the post-acquisition integration planning, issues such as
integration responsibilities, retention and communication plans are discussed.

After the deal has taken place, involvement of the HR function increased
with the post-acquisition activities. In order to reach the targeted level of
integration, slow human integration and fast task integration is proposed.
During the post-acquisition stage, assessment and solidification of the new
organization takes place. With assessment, the success of the acquisition is
measured by various measures, also HRM-wise. Importance of leadership is
recognized, and the competences of managers are assessed. Furthermore,
learning from acquisitions has occurred to some degree, and today the
acquisition process itself is more organized.
Figure 1  Model for managing HRM activities in cross-border acquisition process
5 Discussion and conclusions

During the pre-combination stage, involvement of the HR function could bring complementary input to the decision of whether to acquire or not. By being involved in the pre-acquisition stage and performing its own responsibilities, local HR function could assess risks related to people already before the deal has taken place. This would make the actual integration faster and more efficient. If something major comes up, there is still a chance to put the whole project on halt. Surprising was that most of the interviewees were not able to define what the HRM strategy for acquisitions is. Without a proper HRM strategy in acquisitions, it is hard to begin to analyze the actual success of the acquisition if the exact strategic goals are not known, as well as the importance of HRM in the company is in doubt.

When carrying out due diligence, lawyers have only done the minimum requirements concerning people, such as identifying employee terms and contracts. HR due diligence is often not done because of secrecy issues or because people issues are not considered necessary at this stage. Post-acquisition integration planning is also very important to do well; clear and well-defined plans make the integration process smoother and more effective. Interviews show that the role of the HR function role is very limited or non-existent at the early stage of the acquisition process. An interesting finding from the study was that in all the cases, the previous owners left the company. Whether this is related to the fact that no HR due diligence and management assessment was done in some cases beforehand, in order to analyze the risk lying in people, remains a topic to discuss.

According to the interviews, task and human integration both receive equal amounts of attention (cf. Birkinshaw et al. 2000). However, human integration is only considered once the acquisition has taken place, but it does receive attention afterwards. Task integration has been quite a smooth process despite some problems in implementing SAP and other strategic processes. Moreover, task integration did not create any problems in the long run.

Post-acquisition integration management has a crucial role in order to make the acquisition work. In Delta, the composition of integration teams has varied to a great extent. In most cases, there has not been a clear identified person only working as an integration leader; it has been more the job of the managing director of the local country to do the job alongside his/her normal daily job responsibilities. However, it is necessary that a fulltime person is appointed to lead the integration team.

In post-combination stage, there are still various HRM issues that need to be addressed. Leadership issues should not be forgotten; therefore the process of assessing leadership can result in replacing the existing managers (Schuler
Assessing new managers is important in Delta, and the new managers can take part in training and mentoring, if their competence level does not reach the one of Delta.

At this point, it is also worthwhile to note that Delta does not have a HR responsible in the corporation’s management team. This can reflect the role of the HR function, as only being a supportive function and not having much of strategic importance. Furthermore, when a HR responsible is not present in the corporate M&A team, the strategic importance of the HR function and HRM issues in the case company can be questioned. In addition to that, the corporate M&A team is located in Finland and gives instructions from the headquarters to the subsidiaries abroad. This also limits what the local HR functions can do themselves; they are perhaps more waiting for orders of what to do in acquisitions. If they are given instructions by the corporate M&A team not to get involved in the acquisition, the involvement and contribution of the local HR function will obviously be limited.

According to all the responses from the interviews with the local HR responsible, they clearly emphasized several times how their role is to support the management and the employees. Therefore, it could be argued that there is limited information of HR function playing the roles of strategic partner and change agent. If the top management has low expectations of the strategic contribution of the HR function, it seems to contribute to the limited attention to people management and cultural change issues in the integration process (Björkman & Soderberg 2003, 198). It is clear that in the case company, the dominance is on financial and legal issues.

Nevertheless, it is also the job of the HR function itself to prove its role. In previous literature, Antila and Kakkonen (2008, 293) have emphasized that the most important factor affecting the roles of HR managers is for them to be able to show the importance of HRM issues in cross-border acquisitions. Especially in acquisitions across borders, business competencies become increasingly important. Furthermore, previous experience seems to affect the roles that the HR managers play. Two out of the five local HR responsible that were interviewed, did not have any previous acquisition experience. Only two respondents clearly mentioned that they had been involved in acquisitions before, where as one mentioned only a very small involvement in a late acquisition stage in the past. It is evident that the local HR responsible needs training and coaching regarding the management of the cross-border acquisition process.

Learning is a very important aspect of the whole acquisition process because companies that perform regularly acquisitions aim to develop their acquisition process (Erkkilä 2001, 194). In Delta, the acquisition process is now more structured than before and some learning has taken place, but
considerably more could be done to enhance it. Moreover, additional debriefing meetings should take place between personnel involved in acquisitions in order to increase learning.

Previous literature on HRM issues and cross-border acquisitions has emphasized the importance of human resources as key elements to a successful acquisition (Talasmäki 2009). This study has similar findings and supports earlier literature on the topic. This study also enhances the fact that the responsibilities of the local HR responsible are more operative rather than strategic. Operative responsibilities refer more to the role of administrative expert. It could be argued that this is related to the factor that there is no HR person in the corporate M&A team, who could prove the strategic importance of the HR function to the acquisition process. In addition, if there is no HR person sitting in the management group, the strategic importance of the HRM issues is not so clearly pointed out. Nevertheless, the role of employee champion is present to some extent in combination and post-combination stage, as communication, motivating employees and retaining key employees are considered to be important in Delta.

The limitations of this study were related to one-sidedness, since only employees from the acquirer side were interviewed. Furthermore, the employees who were interviewed represent a HRM perspective, where only the HR responsible of the case company has been interviewed. In order to obtain a profound and complete view of HRM activities and challenges in cross-border acquisitions, more research taking into accounts both sides of the acquisition process is required. In addition, more research on whether the HR structure of the organization truly affects the involvement of the HR function in the acquisition process would provide an interesting perspective in the future research stream on the importance of HRM issues in acquisitions.

References


Olié, René (1994) Shades of culture and institutions in international mergers. 

Oxford: Oxford University Press.

York: Palgrave Macmillan.

Risberg, Annette. The Merger and Acquisition Process. Litterature review at 
Journal of International Business resources: http://copenhagen.jibs.net/LitReviews/LitYearArchive.asp 2004.

Schuler, Randall – Jackson, Susan (2001) HR issues and activities in mergers 
239–253.

human resources in cross-border alliances. Routledge, New 
York.

human resources in cross-border alliances. In: Advances in 
Finkelstein, 103–129. UK: Elsevier Ltd.


in M&A value creation. In: Mergers and acquisitions. Managing 
culture and human resources, eds. Günther K. Stahl – Mark E. 

Scullion, Hugh – Starkey, Ken (2000) In search of the changing role of the 
corporate human resource function in the international firm. 

Shelton, Lois M. (1988) Strategic business fits and corporate acquisition: 
279–287.

Shimizu, Katsuhiko – Hitt, Michael A. – Vaidyanath, Deepa – Pisano, 
Vincenzo (2004) Theoretical foundation of cross-border mergers 
and acquisitions: a review of current research and 
recommendations for the future. Journal of International 

Mergers and Acquisitions. Creating Integrative knowledge, eds.


CUSTOMER RETENTION IN CROSS-BORDER ACQUISITIONS: EMPIRICAL PERSPECTIVE ON RELATIONAL FORCES IN A BULK LIQUID DISTRIBUTION (BLD) COMPANY

William Y. Degbey¹

Abstract

This paper sheds light on the empirical relational forces enabling customer retention in cross-border acquisition, using the case of a bulk liquid distribution (BLD) company. The study reveals that in order to gain significant market/resource advantages in foreign markets or surmount the industry competition, and/or achieve growth through sustainable profitability, the acquirer must harness the interdependence between the target firm and its customers’ relations. Moreover, strategic fit between the acquirer and the target company is crucial. It is argued that the presence of (intermediating) relational forces of reputation, trust and commitment, switching cost and global networks are crucial to acquisition success. Finally, a model of how relational forces (RF) must commingle between the focal firms and the external environment was unveiled amidst the acquisition challenges, as a trigger for customer retention in cross-border acquisitions. Finally, the paper presents a model for customer retention in cross-border acquisitions, which demonstrates how the relational forces (RF) must interact between the focal firm and the external environment.

Keywords: relational forces, customer retention, cross-border acquisition

1 Introduction

Acquisitions are one of many strategic ways by which firms internationalise their operations, beat the intense industry competitions, and strengthen growth of their operations in the form of long-term sustainable profitability. In bid to achieve the above objective however, they end up focusing on how their companies will establish a fit with the target firm without harnessing the

¹ This article is based on the findings of the M.Sc. thesis of the author at the Turku School of Economics.
interdependence between their firm and acquired company customers’ relations. This study examines the empirical perspective of relational forces in cross-border acquisitions as intermediating factors for customer retention. The study also depicts a model of how relational forces (RF) interact between the focal firms and the external environment (in this case the interaction with acquired company’s customer relations). The data for the study was collected by interviews of the main participants in the acquisition process from the acquirer and acquired firm as well as some key customers from both companies. Also, relevant company documents were used in the case analysis. It is also important to note that the empirical perspectives revealed in this study may well be applied to companies under similar context.

The case company referred in here as BLD Company was the acquired firm, headquartered in the United Kingdom. The deal was a hundred percent (100%) acquisition of the acquired company’s shares in April, 2007 by the world’s leading provider of logistic services to the beverage industry, headquartered in Germany. The acquirer was five times bigger than the acquired firm and its main purpose for the acquisition was to meet some of its customers’ increasing need of high quality products and services within the bulk liquid distribution business segment which unfortunately, was not the acquirer’s core area of expertise. These customers constitute just about five percent (5%) of the acquirer’s total customer base. The acquisition of the BLD Company was expected to bring to bear their unique and proven expertise in the design and manufacture of flexitanks for the bulk liquid distribution business. Although, this was a cross-border acquisition, the merging or acquisition parties were both European firms and the acquired firm still maintained its management team except for the acquired firm chief executive officer, who also became a board member of the acquirer firm.

Acquisitions have been a well-known term within the field of business and the academia. Several researches have been conducted within the domain of acquisitions ranging from domestic to cross-border level but many of such research works, for instance, in Lees (2003); Pablo and Javidan (2002); Nahavandi and Malekzadeh (1988) just to mention a few, have not taken into account, whether the acquisition of a particular firm (target) is, in effect, the acquisition of the firm customers’ relations. All attention is primarily focused on the features of the acquirer and target, and their integration (Anderson, Havila & Salmi 2001, 576). A huge proportion of the acquisition literature votes for the assumption that the success of acquisitions is mainly influenced by managerial actions (Anderson et al. 2001, 576). The resource-dependence view, however, would argue that external elements significantly determine the success of any company operations (Anderson et al. 2001, 576). Most of the
literature on acquisitions revealed the hitherto, partially neglected area within the subject matter.

Although the study focuses on revealing the empirical evidence of relational forces in a cross-border acquisition, similar argumentation from the acquisition may apply to mergers as well. This is due to the fact that mergers and acquisitions involve the fusion of two firms with a slight difference on the levels of control (Jagersma 2005, 14), and the two terms often used interchangeably. It is worth to mention that most managers have come across the statistics on acquisition performance that revealed half to three-quarters failure rather than success (Lees 2003, 27). Also, regarding whether takeovers increase efficiency and profitability, one finding has occurred continuously throughout the acquisition literature and stood in stark contrast to most managerial claims, thus, “Not a single large-scale empirical investigation has concluded that takeovers and mergers are profitable, in the sense of being ‘more profitable’ than alternative forms of investment” (Lees 2003, 33). Lee (2003) stated that, in economic sense, big is not always beautiful. Notwithstanding these acquisition failures, the current acquisition trend among companies indicates a more than 50% of total investment in most OECD countries though acquisitions are only one element in total foreign direct investment flows (OECD 2005, 19). In fact, it has become obvious that acquisitions have been gaining strength as preferred internationalization mode for companies (e.g. World investment prospects survey 2007, 54), as acquisitions activity is experiencing an upward trend on the existing high level in year 2000.

In the face of both increasing levels of acquisition activity and high failures, the study focuses on uncovering the empirical relational forces in a bulk liquid distribution (BLD) company’s cross-border acquisition, which have attracted less attention in previous planning and managing of acquisition deals. It is hoped that this study will be an eye-opener to management of acquiring firms, to respect and thereby take into account the utmost importance of relational forces that trigger the retention of customers in cross-border acquisitions.

2 Insights on relational forces

Relational forces are devices that help in effective management to achieve efficiency, innovation and above all, influence in a non-opportunistic fashion other external stakeholders such as customers and suppliers. For instance, the influence often comes from problems, uncertainties or required needs of either customers or their suppliers counting on the other business party to provide solutions (cf. Håkansson et al. 1976). This section of the study provides
insight into relational forces and how they influence customer retention in cross-border acquisitions.

2.1 Relational forces

The BLD Company case study established the following factors as relational forces. They are trust and commitment, reputation, switching costs, global networks, and character and evolution of relations. According to this study, these forces are very tied to the interpersonal relationships that co-exist between merging or acquisition parties and their customers, and their influence on whether an existing or prospective collaboration and interaction will continue or be terminated.

2.1.1 Trust and commitment

Trust and commitment are paramount forces which determine the continuity of a firm’s customer relations with merging or acquisition parties before and after an acquisition deal. As important as the word trust is, it is also difficult to define as many authors fail to clearly establish what they mean when using it (Cousins & Stanwix 2001, 1161). Boussouara and Deakins (2000, 205), however state that the multiplicity of disciplines which have tackled the subject account for some of the difficulties in offering an explicit definition as well as confusion resulting from variety of constructs. Literature review shows that trust is an element of personal, intra-organizational and inter-organizational relationships (Fill & Fill 2005, 162). Gambetta (1988) postulates that trust is a means of minimising uncertainty in order that effective relationship can develop. Commitment on the other hand, is referred to by Morgan and Hunt (1994, 23) as a desire that a relationship continues in order for a valid relationship to be maintained or strengthened. Kumar, Hibbard and Stern (1994) differentiate between affective and calculative commitment. Affective is seen as positive feelings towards the other party and the enthusiasm to maintain the relationship whiles calculative is negatively oriented and determined by the extent to which one party perceives it is (not) feasible to replace the other party, advantageously. If the commitment and trust are key issues, then how are they nurtured? Morgan and Hunt (1994, 34) posit that relationship commitment and trust develop when firms attend to relationships by (1) providing resources, opportunities, and benefits that are superior to the offerings of alternative partners; (2) maintaining high standards of corporate values and allying oneself with exchange partners having similar
values; (3) communicating valuable information, including expectations, market intelligence, and evaluations of the partner’s performance; and (4) avoiding malevolently taking advantage of their exchange partners.

The dimension of inter-organizational trust and commitment is very valuable to this study. Acquisition activities and impacts do not lead to changes in only the acquirer’s organization but extend to both the acquired firm and their individual customers. Inter-organizational trust has two main dimensions; credibility and benevolence. The credibility dimension refers to an entity’s predictability, reliability, honesty, expertise, and competence (Pavlou 2002), thus, the confidence that a firm will behave in predictable manner and can be relied upon to undertake and complete its agreed roles and tasks. The benevolence aspect relates to the goodwill that the other party will act fairly and not take unfair advantage, even if the conditions for exploitation should arise (Pavlou 2002; Fill & Fill 2005). Both the credibility and benevolence dimensions according to Pavlou (2002) are the notions held by buying organizations that, the seller will perform its contractual obligations reliably and effectively in order not to incur any opportunism charges (credibility), and the seller has the intention and motive to serve their (buyer’s) interest, even when new conditions without prior commitment arise. It has been argued that the benevolence dimension is higher level trust since it is based on goodwill but not on a cooperative behaviour that emanates from the desire to make opportunism costly or irrational (Borys & Jemison 1989). Empirical evidence from customers’ perspective in this work had shown that the credibility dimension was effective in retaining customers from both acquirer and acquired companies. Thus, some customers switched to either side during the integration period with ease.

The role of institutional trust cannot be overemphasised in business-to-business markets as it reflects the overall reputation of the organization (Fill & Fill 2005). In this work, the institutional trust of BLD Company (acquired company), justified why the company still maintains its original identity having sold a hundred percent of its shares to the acquirer. Three paramount outcomes of trust have been identified in the conceptual framework of Pavlou (2002) namely satisfaction, perceived risk and continuity. Satisfaction (buyer satisfaction) as an outcome of trust results from the reduction in conflict and the threat of opportunism which is a positive consequence of institutional trust. Perceived risk relates to expectation of loss and hence, it is linked to organizational performance. If a party trusts that there will be no undue advantage taken from information asymmetry then risk is minimised. Trust has a close association with continuity, thus, the presence of it will determine the longevity of the relationship. (Fill & Fill 2005.)
On the whole, trust has yielded positive outcomes as observed from the *economic perspective* (reducing transaction costs of an exchange through the switching of customers and enhancing synergy), *sociological perspective* (creating social capital through the expanded network resulting from the acquisition), and from the *organizational perspective* (as a governance mechanism in diminishing opportunism and promoting cooperation). It has been argued that the main way to accurately comprehend the concept of commitment is to see it as a multiple composite of commitments. This explanation leads us to the dimensions of commitment. The most fundamental classification is the attitudinal and behavioural commitments (Brown 1996). This classification was originally used in the analysis of organizational commitment but now includes the analysis of commitment to inter-organizational relationship (cf. Nummela 2000, 63). Attitudinal commitment is the positive feeling towards the future of co-operation (cf. Mowday et al. 1982; Allen & Meyer 1990). This definition intersects with Kumar et al. (1994) explanation of affective commitment. In the case of BLD Company, attitudinal commitment played a significant role in switching over customers to acquirer. Its evaluation is based on analysis of psychological bonds. Attitudinal commitments by a partner extend beyond contractual obligations and pure cost/benefit analysis. Behavioural commitment is attained through concrete behaviour and measured with concrete action and material investments (Nummela 2000). In the case of BLD Company, the manifestation of the behavioural commitment was evidenced by the compliance of customers to the new conditions of the merging parties, although the pre-acquisition relational requirements were altered.

It is crucial at this point to know that trust has an influence on relationship commitment. This is because when a relationship is characterised by trust and is so highly valued; the parties will desire to commit themselves to such a relationship (Morgan & Hunt 1994). Also, because commitment comes with vulnerability, parties will opt for only trustworthy partners. Morgan and Hunt (1994) as well as Achrol (1991) state that trust is a major determinant of commitment.

Trust and commitment empirically revealed in this study not only as variables noted as relational forces but also as relational interdependence variables which assist in building customer relationship and their subsequent retention. The BLD Company acquisition case witnessed the swapping of some key customers from the acquirer to the acquired company and vice versa. This was done to enhance operational synergies. It must be stated that acquisitions may bring with them certain changes, which may either be structurally, humanly, operationally, etc. related.
However, the element of trust and commitment may still exist and/or be strengthened if the new relationship between the acquirer and the acquired company’s customer yields a mutual benefit. It was learned from this study that acquired firm’s customers prior knowledge or business relation with the acquirer was very crucial in trust and commitment building as an antecedent for customer retention. Trust and commitment in working with the acquirer was seen in this study to have emanated from strong bonds that existed between the customer and acquired company before the acquisition. This strong bond clearly indicated the ever willingness of the acquired company’s customers to remain with the ‘newly formed company’\(^2\). This empirical finding buttressed the claim in the social penetration theory that customers are ever willing to work with suppliers whose personality breadth and depth are known to them (Altman & Taylor 1973). Figure 1 below shows the empirical (BLD) determinants of trust and commitment in this study.

![Figure 1](BLD determinants of trust and commitment)

It is important to note that trust and commitment as concepts require effective communication and collaborative efforts of acquisition parties to

---

\(^2\) The joint organization resulting from the acquisition.
achieve. Trust and commitment therefore, have a greater propensity to last for a long period of time provided there is assurance that, *existing or prevailing conditions that created them will not change dramatically; otherwise the reverse situation will result.* This indicates that trust and commitment is not static in business relations once established but rather dynamic. A key customer of the acquired company attested to the dynamism of trust and commitment in respect to their future relations with the case company (acquired company). The customer noted that trust and commitment will be dysfunctional if *less attention* is given to their company in the future as the acquirer may urge or pressure the case company to focus more on acquirer’s deficient business area (bulk business) at their expense (industrial business). *Functional conflict* is one factor that negatively affects trust; therefore, the acquirer must endeavour to balance the business functions of the case company in terms of services rendered to the various classes of key customers.

Besides, *competitor-gossip* (defined in this study as a firm’s opportunistic attempt to snatch a competitor’s customer through an adverse word-of-mouth publicity), may also work to undercut the trust and commitment by creating the impression to existing customers of the acquired company that, less attention will be paid to them due to the ongoing acquisition process. It was evident in this study that customers’ satisfaction improved when operational procedures were reconfigured but their retention hampered when promises made during the acquisition process were not met. *Unfulfilled promise* dents commitment, exposing the element of trust to negative consequences, e.g. termination of business relations. Regarding the nurturing of trust and commitment, it was revealed that, eyes should not be taken off the customer in quest of addressing an internal problem and there should be good relationships and networks between the company and the customers. However, the acquirer’s main concern regarding trust and commitment was in terms of agency setup (thus, having direct local sales force at every region of business). It is believed by the acquirer that, having direct contact with customers will influence their level of trust and commitment necessary for customer retention.

2.1.2 Reputation

Reputation or more specifically corporate reputation (as the issues under discussion pertain more to the organization) is defined by Balmer (1998, 971) as the “*perception of an organization which is built up over a period of time and which focuses on what it does and how it behaves.*” Reputation is an asset which requires investment to create and maintain (Mailath & Samuelson 2001,
This assertion justifies the point made by Rodden (2006) that reputations are made, not born. The implication of Rodden’s assertion is that, its intrinsic merit is very important yet secondary to its formation. It is an intangible asset with no specific means of measurement and very difficult to assess the benefits of increased expenditures on it. Therefore, it is left to the mercy of the customers. However, the firm can put certain measures such as creating the awareness among all employees especially those who interface with customers, potential customers, suppliers, competitors, and not excluding the drive among top management in managing it (Cravens & Oliver 2006, 295).

Reuber and Fischer (2005, 58-59) state that reputation is an organization-level resource that is socially constructed but objectively held in the sense that its favourability evaluation is done by outsiders. The author of this study is of the view that, this vital form of asset has to be well understood and better managed if businesses want it to survive the complex and dynamic business environment. The reputation of the acquiring company must always be taken into account by the target firm and vice versa. This is very essential because the third parties who are the customers of these two companies will be affected by the actions of the two merging firms, therefore, they must harness their organizational efforts to meeting their customers’ expectations in order to salvage their reputation. This assertion has been confirmed by Peck et al. (1999, 44) that “if customer service does not meet customer expectations, it is unlikely that a customer will be retained and the reputation of a company may be damaged by adverse word-of-mouth publicity”. If the acquiring firm has maintained for itself an excellent corporate reputation then its chances of taking over the acquired firm’s customers become quite high and the reverse is true for acquiring firm with a dented reputation.

For instance, when a firm is believed to have good reputation then it becomes relatively easy to attract and retain customers and valuable employees, supplier’s demand for advance payment becomes less likely, strict regulatory scrutiny may be reduced and customers may attribute high degree of quality to the firm’s product and services (Cravens & Oliver 2006, 296). Crisis in reputation usually from unethical actions from the players within the firm may be very disastrous and its better management will create a long-term value with enduring properties such as customer loyalty (Cravens & Oliver 2006; Nguyen & Leblanc 2001).

Considering the mental image of customers in the case of BLD Company before and after the acquisition, key customers interviewed from different segments of the business spectrum shared similar positive mental image about the acquired company as an outstanding market leader in bulk operations. The strong reputation of the acquired company forced the acquirer to maintain the acquired company’s brand name after the acquisition. Other studies on
reputation indicate it as a concept made of the cumulative image of customers overtime coupled with the expectation of future prospects (Reuber & Fischer 2005; Gray & Balmer 1998; Markwick & Fill 1997). It is again imperative to remember that one central element to achieving reputation is effective communication (both planned and unplanned). The relevance of communication to the concept of reputation could not be highlighted more in the case of BLD Company as the firm spent in excess of US$3 million annually just to keep in touch with customers. Figure 2 below shows the reputational framework in the case of BLD Company.

![Reputational Framework](image)

**Figure 2  BLD Company Reputational Framework**

The above framework illustrate that, for a firm to attain a sound corporate reputation it must consistently assess itself in terms of whether it is maintaining a strong brand name or identity through effective and timely handling of its communication to intensify the brand identity into cumulative image and positive future expectation from the external business environment.

In the BLD Company case, the number of customers for each individual company of the merging parties changed after the acquisition. This was not due to customer lost but an agreement to swap the various customer categories mainly based on geographic proximity, and was a rational choice to minimise cost.
It was indicated by the interviewed customers of the study that, products and services of the merging parties are of high quality but not the cheapest option. Thus, customers obtained products and services at a relatively higher price as compared to the merging parties’ competitors. This reiterated the fact that both the acquired firm and the acquirer cannot compete on price. In order to retain price sensitive customers, the acquirer and the acquired company must intensify and hold as ‘hostage’ this relational force i.e. sound reputation (e.g. strong brand names) as a bargaining chip to retain customers.

2.1.3 Switching costs

Switching costs have been described by Heide and Weiss (1995, 40) as the buyer’s perceived costs of switching from the existing to a new supplier. Switching costs are also conceptualised as “the customer’s perception of the magnitude of the additional costs required to terminate the current relationship and to secure an alternative” (Yanamandram & White 2006). These costs essentially include the costs of changing services in relation to time, monetary and psychological expenditure (Dick & Basu 1994). This section of the paper unfolds this relational force (switching cost) in the BLD Company acquisition case. Customers of the case company revealed through interviews that BLD Company did not provide any unique asset specific to lock-them-in. This means the existing customers can easily switch to other competitors of BLD Company. Empirical findings nonetheless showed intriguing revelations why these customers still do business with the BLD Company, although, they were not offered any unique asset specific to complete their transaction cycle. Thus, multiple factors ascribed to high switching costs may have caused existing customers not to switch, and not resulting from an exclusive specific asset necessary to complete a transaction cycle. These factors as revealed from the empirical finding include the desire to maintaining a long-term relationship, diversification of risk (spreading the risk of a single supplier failure in providing service/product over many suppliers e.g. transport service risk), price, quality and liability of the partner, and presence of global networks.

Among these factors, presence of local/global networks and the desire to maintaining a long term relationship proved empirically stronger with the key customers’ interviews. The theoretical revelation partly supporting the empirical findings above is the social exchange theory. The theory with its
central focus on the emergence and maintenance of customer relationship explains that, customer retention is derived from the benefits/rewards greater than the associated costs (Houston & Gassenheimer 1987). This means that the customers will maintain the existing relationship because they are looking for a long-term relationship. Also, they will continue with the relationship as far as the relationship benefits outweigh the costs. They may however, terminate the existing relationship if expectations in terms of future benefits are less than past exchanges or a better alternative than the current one is discovered.

The findings in this study, though not meant for gross generalisation, do run parallel with the claims noted in the switching cost existing theoretical and empirical literature. It has been empirically validated that customers usually are motivated to maintaining their existing relationships in order to economise on their switching costs, and also, dissatisfied customers may still remain with their service/product providers due to high switching cost (cf. White & Yanamandram 2007). Besides, the provision of installed proprietary equipments/special fittings services by the acquired company known as ‘hard assets’ for the customer’s customer would help increase the switching cost. Eventually, the inability to switch will lead to dependence of the customers (cf. Heidi & John 1988) on the acquired company and this has been the case in this acquisition. Since the interview with the managers from the acquirer and the acquired company confirmed that they were unable to compete on price, they must strengthened the other factors (quality, liability of the partner and long-term relationship) mentioned by the customers in choosing their products and services.

An alternative revelation from the BLD Company study showed that, switching cost may be strengthened by first, building a relationship with the customer. Secondly, making sure that the customer has all the knowledge about the advantages of the products and services. Finally, benefits of the company’s setup with the local offices worldwide. The above empirical findings concerning building a relationship is also revealed in the relationship-marketing concept of attracting, developing and retaining the customer relationship (Hennig-Thurau & Hansen 2000). The knowledge-based view also supports the empirical finding that, the knowledge about the advantages of the products has to be transferred from the company to the customer (Porter 1985). All three advantages must be packaged and sold-out during meetings with the customer.

Also, the BLD Company study revealed that, the ability to get registered as a supplier with some big customers, for instance, Shell or BP was very crucial. The reason being that Shell or BP, for example, has rigorous and long testing processes to determine the quality of their suppliers’ products making it difficult for them to switch suppliers who are chosen. The supplier may
therefore render services to them at a higher price whilst charging relatively low prices to other smaller customers in order to get relationships well established. When existing relations are dismissed, positions of the terminated party become exacerbated if investments are difficult to switch to another relation (Morgan & Hunt 1994, 24). It is very crucial to note that, switching cost as mentioned here does not include only those costs measured in financial terms but all other non-financial costs such as the psychological effect of becoming a customer of a new firm as well as the time and effort required in buying a new product (Yanamandram & White 2006, 8).

2.1.4 Global network

The term global network is explained in this study to mean the multiple webs of relationship the BLD Company has nurtured and maintained at the domestic and different foreign markets. The business network view is very crucial to the above concept, and relates to the socio-psychological theory in business relationships which focuses on structuring of interaction processes (IMP 1982; Grönroos 1994). It has its basis on relational exchanges with a variety of organizations within interlocking networks. The degree of cooperation and reciprocity are essential elements of this theory. Central to the network view in this study are the elements of interaction, embeddedness and exchange. A firm being a business entity is involved in exchange activities mutually beneficial to it (Fill & Fill 2005). These exchange activities position a focal firm in a network of relationships with other exchange partners. The interaction and embeddedness in these networks may create a high switching cost and, also build trust and commitment within the web of relationships (cf. Johanson & Vahlne 2009). Over a period of time, the interaction and exchange may also allow the focal firm to build its reputation with its partners within the network. It must be stated that termination of an actor within the network is possible. A firm outside this network will suffer from the liability of outsidership (Johanson & Vahlne 2009, 1). Above all, the network view is central to this study because in the relationship between the acquirer and acquired firm (focal relationship), the acquired firm customer is assumed as an actor in a subsidiary relationship. Fletcher (2008, 955), states that subsidiary relationships can affect the focal relationship specifically and on the entire network in general. *Global network* empirically emerged as an essential relational force in the BLD Company case study. Although, this factor was not initially constructed as one of the relevant relational forces for customer retention, empirical data analysed from the acquirer, acquired company and customers proved the opposite. The local sales teams and agents were not the only attributing
elements of this relational force but the extra attention and the informal nature of relationships with the customers’ customer were to be endorsed for this as well. The BLD Company case showed that, customers were not able to switch to another supplier due to the good relationship the customers’ customer have with the BLD Company’s local office. What this revealed was that, relationships may not be sustained only at a single customer-supplier level but move beyond. Suppliers should/must attend to the network of relationships around that customer for subsequent referral to other customers; good word-of-mouth publicity for the ultimate retention of both new and existing customers.

2.1.5 Character and evolution of relations

The character and evolution of relations is another relational force in the BLD Company study, serving as essential mediating element for customer retention. The existing literature on the evolution and characteristics of relationships (see, for example, Ford et al. 2003; Fill & Fill 2005) revealed that, the early stage in the development of business relationships is crucial to the future outcomes. Relationships will be terminated prematurely if not well nurtured at the onset (cf. Ford et al. 2003; Fill & Fill 2005). The empirical data revealed that, communication played a significant role between the BLD case company and customers in learning about and teaching each other in terms of what they stand for, what they need and can offer to the relationship. Thus, considerable interaction was required between the customers and the case company due to the technical nature of the product, time sensitivity, and the reliability of products and services. Customer retention was possible for the case company because the company understood the requirements for the relationship to evolve and the characteristics of their customers as partners, dealing with time sensitive products and demands for product reliability and aversion for surprises.

Besides, evolution of an effective inter-firm relationship especially in acquisitions has taken a focus larger than just a formal contract between the partners and now drifted more toward behavioural and relational approaches. The latter approaches managers believe can improve a firm’s performance by creating a more flexible and responsive business partnerships (Mukherji & Francis 2008, 154.) It is true that the content of a customer relationship may change over time as well as its complexity. The complexity of relationships and changes in its content will stand the test if the social, resource and economic contents as well as the required relational adaptations are well nurtured.
2.2 Integration and challenges in BLD Company process

Acquisitions are complex strategy that requires careful planning during the pre-acquisition, acquisition, and the integration or post acquisition phases for synergy realization and/or wealth creation for all concerned parties. However, most acquisitions are strangled with challenges and their success often threatened especially at the integration phase. The case study of BLD Company is no exception.

This integration process will focus more attention on customers’ integration in the BLD Company case. The acquisition took place in April, 2007 and was a complete takeover. It was however not a hostile takeover since it was accomplished through a mutual agreement between the acquirer (German firm) and acquired firm (British firm). Both companies provide services within the same industry with slightly different mode of operation, which is now complementary to each other with the help of the acquisition. Thus, the acquisition can also be described as concentric.

**Customer integration** was met with initial resistance in switching or swapping customers in terms of geographic proximity between the acquirer and the acquired company. This was efficient strategy to harness synergy through lowering costs. For example, information processing time and communication costs (cf. Trautwein 1990). However, careful planning and a gradual procedure for learning to take place assisted in moving the customers between the two companies. It was empirically evident that the swapping *was not done immediately, it was well planned*. There were mutual visits to these customers with plans of how the handover was going to take place. The acquired firm did not insist if a customer flatly refused to deal with the acquirer or there was a customer that did not want to deal with the acquired firm in the UK. *But with careful planning and gradual procedure with unrelenting effort, all key customers had switched a year on.* It was discovered in the study that some minor customers disappeared but were not described as customers lost as a result of the acquisition but rather a *natural wastage phenomenon* (the automatic lost of some minor or floating customers from time to time).

The human integration part of the BLD Company study went very well but on the contrary, the **operational (task)** integration challenges were problematic posed enormous threat to the value-adding activities of the merging parties to harness synergy (cf. Birkinshaw 1999, 34). It is important that internal changes that come with acquisitions such as changes in operational infrastructure, computer systems, and changes in the tracking systems and sharing of systems must not consume all the attention of the acquirer and acquired company at the expense of the customer. These technical challenges
were resolved by multiple levels coordination, control and conflict resolution regarding the best systems to adopt from the acquisition parties’ individual departments and divisions (cf. Shrivastava 1986, 67).

**Managing cultural differences** is difficult to define this broad thing called culture but Lees (2003, 195) defines it as *the artifacts, socifacts and mentifacts of a people*, which to him is all-embracing. Hofstede (1997, 180) defines it as *“the collective programming of the mind which distinguishes the members of one organization from another”*. Cultural issues have become one of the major challenges for managers when it comes to post-merger integration especially in relation to cross-border acquisitions.

Although BLD Company study was a cross-border acquisition case, cultural differences issues were not that dramatic. Both the acquirer and the acquired company are European firms with similar corporate cultures. However, individual national cultures influenced the way customers are treated or served on a routine basis. Though, decision making in the acquirer firm was decentralized and the acquired firm centralized, it did not affect the integration process negatively. The reason may be due to the degree of integration between the two companies (cf. Nahavandi & Malekzadeh 1988, 82), which predominantly focused on customers. Therefore, the double-layered acculturation problem was much minimized (cf. Barkema, Bell and Pennings 1996). Besides, the ability of the acquisition parties to pull together to offer that unique products or services valued by their customers and delivered by that unique but complementary culture helped overcome the liabilities of culture differences.

It is imperative that companies opting to grow through acquisition strategy have in place efficient systems as well as experienced, knowledgeable and effective managers in order to surmount these challenges.

3 Relational forces (RF) model

This section of the BLD Company study shows the empirical relational forces (RF) model for customer retention in cross-border acquisitions (see figure 3 below).
The above model shows how the application of an acquisition strategy would lead to performance, in this case, the retention of customers. The model reveals an acquisition with inherent integration challenges and the company must strive hard to overcome these challenges in order to establish a mutual fit between itself and the acquired firm. The model further demonstrate that, looking within will not yield the right outcome but strategically linking and manoeuvring the mediating relational forces, thus, bringing the acquired company on board to pursue and establish the cohesion in the external environment is very paramount to customer retention as a consequence of successful acquisition outcome.
4 Conclusion and summary

A great number of studies have been done on the individual level of cross-border acquisition (mergers inclusive) or customer retention in relationship marketing. However, in the area of cross-border acquisition purposely focused on customer retention, earlier research works have been very limited. Inter-organizational relationships often consider the nature, development and characteristics of the core actors, how they are intertwined and how the malfunctioning of one part affects the other. The case of acquisition failures is just a perfect example to mention. It has been observed that most acquisitions concentrate more on how to manage the internal mechanisms for mutual benefits or fit between the acquiring and the acquired company with less attention given to the acquired firm customers in the process.

This study focuses on the relational forces stoking the flame for customer retention in cross-border acquisitions. The study revealed that the acquisition parties must strive hard to overcome the inherent acquisition challenges in order to establish a mutual fit between each other. The model further demonstrate that both parties must not turn inward but rather strategically link and manoeuvre the mediating relational forces, thus, the acquirer involving the acquired company to pursue and establish the necessary customer retention adhesions in the external business environment.

The main focus of the study was to reveal the empirical perspective of the relational forces in a bulk liquid distribution (BLD) company. Insights on relational forces as well as the acquisition integration process and challenges were uncovered. These provided lessons crucial for understanding the dynamics of customer relationships. Also, the empirical relational forces (RF) model of customer retention was unveiled as a crucial tool for customer retention in cross-border acquisitions.

References


POST-ACQUISITION INTEGRATION PROCESS FROM THE EMPLOYEES' PERSPECTIVE: THE MEANING OF TIME IN THE PROCESS?

Johanna Raitis

Abstract

This paper discusses the management of employees in post-acquisition integration. Particularly, the study aims to investigate the meaning of time in the process by comparing two different integration approaches. The study was conducted as a qualitative study with one multinational case company. All in all, 52 face-to-face interviews were conducted with employees representing various organizational levels and positions. Based on the findings, it is suggested that showing people the benefits of the merger and engaging them in the process are important elements for successful integration. A slow integration approach, on the other hand, might not promote cultural integration as suggested in the literature.

Keywords: post-acquisition, integration, employees, time, process, case study

1 Introduction

Mergers and acquisitions (M&As) as means of growth and development have become an increasingly important strategy for many internationally operating companies (Cartwright & Schoenberg 2006; Nummela 2004). Consequently, cross-border mergers and acquisitions have become commonplace in multiple regions across the globe (Shimizu, Hitt, Vaidyanath & Pisano 2004; Cartwright & Cooper 1992). Yet, despite the increasing popularity and activities in the real-world, studies have found that acquisitions in general destroy rather than create value (Lees 2003; Cartwright & Cooper 1992) or that synergy realization is considered rare at the very least (Larsson, Brousseau, Driver & Sweet 2004).

The success and value of M&As in terms of expected and achieved goal congruency and synergy creation between two organizations is highly reliant on the post-acquisition integration process (see e.g. Haspeslagh & Jemison 1991). The challenges related to the post-acquisition integration again, depend greatly on the level of intended integration (Teerikangas & Very 2006). In the highest and most inclusive level of integration (see e.g. Pablo 1994), which is
also the focus of this study, the changes extend to companies’ goals, structures, policies, values and culture (Erez-Rein, Erez & Maital 2004; Marks & Mirvis 1998; Pablo 1994; Cartwright & Cooper 1992). Considering the nature and range of these elements, it is not surprising that especially in cross-border acquisitions, integrating separate companies has proved to be particularly difficult (Vaara 2003; Schweiger & Very 2001) and that this part of the acquisition process causes the biggest insecurities and concerns among the practitioners (Haspeslagh & Jemison 1991).

Post-acquisition integration process is generally seen to consist of two parts: task and human integration. Both approaches are relevant to the overall process, but in terms of acquisition success it appears that human integration has a substantial weight on task integration. (Birkinshaw, Bresman & Håkanson 2000). In the recent years, research into the human aspects of M&A has increased in prominence and it is now commonly agreed that studying the human factor in organizational integration processes results in much better understanding on the successes and failures of M&As (Bijlsma-Frankema 2001). Yet, many studies on organizational integration still provide an overtly rationalistic view on the integration process (Vaara 2003) and the M&A research field continues to be dominated by financial and market studies (Cartwright & Schoenberg 2006).

Following Lees (2003, 41) and his view that “people make organizations happen” the focus of this study is on employees and their management in the cultural integration process. It is evident that employees matter in M&As (Cartwright & Cooper 1992; Marks & Mirvis 1989) but equally apparent are the challenges related to their management during the process. Foremost, changing organizational members’ mindsets and habits that are tied to the antecedent organizational culture does not happen overnight.

Evidently, successful integration management requires a lot of time and energy. In practice, however, managers generally tend to underestimate rather than overestimate the time required to integrate two organizations into one entity (Schuler & Jackson 2001; Marks & Mirvis 1998). What is more, practitioners are often highlighting the necessity of acting rapidly in post-acquisition integration processes. As in any other business operation, speed in M&As is often considered a business virtue, providing companies with advantage, prosperity and success. Yet, contrary to the practical viewpoint, empirical research has indicated that speed of actions may not constitute to the progress or success of integration after all. (Angwin 2004.)

This study focuses on employee management in post-acquisition integration. Particularly, the study aims to investigate the meaning of time in the process by comparing two different integration approaches. Evidently, managing cultural integration requires better understanding of the emotions
and concerns of the employees as well as the effectiveness and value of the different integration approaches.

In the following chapters I will first discuss the employee perspective in post-acquisition integration. This chapter is then followed by discussion on the different integration approaches. In the study design chapter I will introduce the case company and the applied research method. Finally, the study results and conclusions are presented.

2 The employees’ perspective in post-acquisition integration

Changing a culture always deals with changing the people. Human integration, again, is considered being very complex (Birkinshaw et al. 2000) with no universal rules to fit the variety of situations (Bower 2001). Accordingly, Risberg (2001) argues that neither employees nor managers experience the post-acquisition process homogeneously. In any case, integration is always a major event for the organization and its members requiring a high level of personal adjustment (Cartwright & Cooper 1992). When changing a culture the changes must occur first and foremost at the individual level (Marks & Mirvis 1989). In other words, when focusing on employee integration we will need to consider softer values (Nummela 2004) and cultural differences (Schweiger & Very 2001; Buono, Bowditch & Lewis 1995) as key elements in the process. Supporting this view an emergent and growing field of research is now focusing on the emotional and behavioral aspects of employees in M&As (Cartwright & Schoenberg 2006).

From the employees’ perspective post-acquisition integration involves at least two critical stages; (1) the out learning from the old organizational culture and; (2) the assimilation to the new organizational culture. The difficulties related to leaving behind the old culture should not be overlooked as the existing organizational culture and bonds between a group and a person can be hard to break (Larsson & Lubatkin 2001). Furthermore, the more valued the premerger organizational identity is and the stronger the employees’ bond with the organization, the more likely the employees are to resist the change (Ashforth, Harrison & Corley 2001; see also van Dick, Ullrich & Tissington 2006) making it difficult for them to re-identify with the new organization (Bartels, Douwes, Jong de & Pruyn 2006). The loss of a common culture, language and history as a result of M&A (Marks & Mirvis 1989) can be extremely difficult as people are expected to destroy or replace something that they have been part in creating (Bower 2001). As organizational culture is seen to be shaped by its’ members’ shared history and
expectations (Larsson & Lubatkin 2001) any change concerning it is of a great concern to the organizational members.

The importance of competent management in successful post-acquisition integration process is fundamental (Erez-Rein et al. 2004; Bijlsma-Frankema 2001, Marks & Mirvis 1989). Poor integration management leads to difficulties in human resources and to decreasing operational results that can carry on for years (Marks & Mirvis 1998). The challenges for managers are further multiplied by the fact that most employees tend to react negatively to being acquired (Larsson et al. 2004). The negative associations or employee resistance is seen to originate from employees experiencing uncertainty and insecurity about their future (Marks & Mirvis 1998), culture shock (Buono et al. 1995), cultural clashes, poor communication and negative career or job implications due to the merger (Larsson et al. 2004). Thus, creating a supportive, inspiring and positive atmosphere for the change (Larsson et al. 2004; Haspeslagh & Jemison 1991; Marks & Mirvis 1989) that focuses on the well-being and productivity of the employees is essential (Van Dick et al. 2006).

3 Integration management – fast versus slow approach

Larsson et al. (2004) highlight the importance of both speed and long-term approach in combining two companies. Speed is necessary for reaching early organizational agreement on the new direction (cf. Bower 2001). Delaying the early steps of the process even for pacifying purposes is detrimental (Larsson et al. 2004). In conjunction with speed, managers will, however, also need to acknowledge a slower, long-term integration approach (Cartwright & Cooper 1992; Marks & Mirvis 1998). Herein, the complexity of the process increases substantially and the capacity of the managers to comprehend and manage the situation is truly tested (cf. Lees 2003). Earlier studies have suggested that managers ought to pay special attention to communication and cultural integration in combining two companies (Erez-Rein et al. 2004; Schuler & Jackson 2001). Taking into account the necessity for short- and long-term approaches in integration management I will next explore communication and cultural integration through these time-bound perspectives.

Communication
Uncertainty about the upcoming change and its effect on employees’ future is considered to be a significant cause for employees developing negative feelings about the organizational change (van Dick et al. 2006; Jetten, O’Brien & Trindall 2002). The role of communication during these initial, uncertain
organizational times is crucial. The perceived quality of communication about the change reduces job insecurity and contributes to the employees’ post-acquisition identification with the new organization (van Dick et al. 2006; see also Bartels et al. 2006). Studies have shown that the more satisfied the employees are with the information that is given to them; the more involved they will be in the decision-making, and the higher their identification with the new organization will be (Bartels et al. 2006). Informing the employees about the decisions that may affect them is important (Marks & Mirvis 1989). Furthermore, clear, frequent, timely and open communication about the upcoming changes effectively cuts-off any rumors or misconceptions that can easily take hold in such situations (van Dick et al. 2006; Angwin 2004).

In post-acquisition communication, managers will need to pay attention to two relevant communication components in order to facilitate the employee identification with the new entity: 1) the content of the organizational messages (i.e. make sure that employees are satisfied with what is being communicated) and; 2) the communication climate (i.e. how the information is communicated to the employees) (Smidts, Pruyn & Riel van 2001).

Regarding the communication content, employees going through M&A process often want to understand the purpose of the change and the direction of the new organization (Marks & Mirvis 1989). Communication is also suggested being an important managerial tool in managing employees’ anticipations and creating expectations (Bartels et al. 2006) as well as informing the organizational members about the envisioned changes related to the organizational identity (van Dick et al. 2006). Thus, understanding what is happening, why it is happening, and where it will lead to, or at least creating perceptions of it, are important components of post-acquisition communication. Furthermore, knowing ones’ role and responsibilities in the process is a key factor for a successful implementation of the desired changes (Marks & Mirvis 1989).

Based on their study, however, Smidts et al. (2001) argue that communication climate is more relevant for creating organizational identification than is the content of the actual messages. In practice though, it might be easier for managers to create meaningful messages than to present them in a suitable, culturally respectfully way. Managers might even think that correctly constructed messages are enough for creating the desired climate and direction among the employees. In any case, the value of communication has been shown to depend mostly on the perceptions and interpretations of individual employees of the communication climate (Smidts et al. 2001). Showing mutual respect towards the pre-merger cultures already in the early phases of contacts is obviously important (Marks & Mirvis 1989). Hence, in addition to providing each employee with sufficient amount of relevant
information, managers will also need to provide them with opportunities to speak out, get involved, be listened to and actively participate in the discussion and debate (Smidts et al. 2001). Accordingly, future studies are suggested to pay more attention to the actual communication events in the organization and explore their role in the post-merger identification (Bartels et al. 2006).

Cultural integration
Integration process is not finalized until a coherent and unitary organizational culture has been developed, implemented and shared among the organizational members (van Dick et al. 2006; Cartwright & Cooper 1992). The desired outcome may not, however, be easy to achieve as organizational culture encompasses what the organization is and what makes them unique (Marks & Mirvis 1989). Clearly, changing the “way of organizational life” (Hatch 1997, 204), employees’ shared assumptions and values (Schein 1985), takes a long time as earlier studies have already pointed out. To further complicate things, integration of two companies may bring, or in worst case, force together two completely different organizations and cultures.

The role of managers, including the CEOs, in reinforcing the movement towards the desired culture is fundamental. In one hand, their responsibility is to show immediate example through their own behavior and dealings with their peers and subordinates (Marks & Mirvis 1989). The managerial example will evidently indicate that the company is serious in “walking-the-talk” motivating and encouraging the rest of the organization to follow. On the other hand, managers will need to make sure that employees perceive the changes in their daily work to further strengthen their identification to the new organization (van Dick et al. 2006). Thus, simply telling people what they ought to do and imposing them to change does not promote identification to a new culture.

In their study, Larsson, Brousseau, Driver and Sweet (2004) investigated the different approaches of post-acquisition integration in relation to time. The researchers identified three approaches that each had a different impact on the employees’ perceived levels of resistance or attractiveness towards the change. The first approach, the soft integration, implies a slow process, where the aim is first to preserve the existing values of both companies and then slowly, via trust building and mutual understanding, develop the two companies into a joint organization. An opposite approach to the soft integration is hard integration. The hard, or controlling approach, is a much faster and forceful type of integration, where the acquired company is expected to immediately implement the acquirer’s ways of operating. This type of integration may achieve a faster functional and structural integration but it can easily lead to strong employee resistance. (Larsson et al. 2004; see also Birkinshaw et al.
The third approach, the co-competence integration, according to Larsson et al. (2004) is the best way to achieve organizational integration as it relies on exploiting and sharing the competencies of both companies. Engaging people from both sides to the change process is expected to create mutual understanding and respect between the parties and ownership towards the integration.

The acculturation theory of M&As suggests that culture can change as a result of being in contact with another culture (e.g. Teerikangas & Very 2006; Marks & Mirvis 1989). The theory implies that merging two autonomous cultures always requires a cooperative process that brings the employees of both organizations together in terms of beliefs, assumptions and values (Larsson & Lubatkin 2001). For managers this implies the necessity of creating a supportive atmosphere (Haspeslagh & Jemison 1991) that will eventually lead to the separate units sharing a similar organizational culture (Nummela 2004).

Emphasizing the non-authoritarian approach, Larsson and Lubatkin (2001) suggest applying informal controls such as introduction programs, training, cross-visits, retreats, celebrations etc. in order to achieve high employee cooperation and low resistance within the organization. Although, informal controls influence the managers’ ability to affect the degree and timing of acculturation they are seen to be the only option for acculturation. Furthermore, the effectiveness of informal controls is not dependent on the expected synergies, organizational size or differences in nationalities and culture (Larsson & Lubatkin 2001.)

4 Study design

The case company in this study is a large, high-technology engineering group employing approximately 14,000 people in its operations all around the world. During the last 15 years or so the company has grown through several international acquisitions that have expanded its scope in terms of business and market areas. Currently, the company has one of the most extensive product portfolios in the market and a world-leading position in the selected areas.

Previously, the case company applied an acquisition strategy, where the acquired companies were not forced to change due to the acquisition. This approach could be considered being equivalent to the soft or avoiding integration approach (Larsson et al. 2004. The new units were expected to cooperate with the other units and create synergies. According to the soft
approach, the collaboration and engagement with others will eventually lead to cultural integration.

However, due to the change of the corporate CEO, the corporate strategy was changed. The company introduced a new “single brand –strategy”, where the objective was to implement a common corporate culture, identity and image across its units all around the world. As a result, future acquisitions would from now on be fully integrated to the corporation and the earlier acquired companies would also need to assimilate their organizational culture and operations to the parent company.

For the purpose of this study I will focus on acquisitions that the case company made before and after the new strategy implementation. In other words, I will include (a) business units have been acquired years ago but have not gone through an active integration process, as well as (b) newly acquired companies, where the integration process will commence at once as per the new strategy. Comparing these two approaches will give me a solid understanding of the differences (advantages and disadvantages) between the different integration tactics.

All in all, the data consists of 52 face-to-face interviews that have been conducted in six business units in the region of Australia. Out of the various market regions, Australia was selected as it was the only region, where the company had acquired units before and after the new strategy implementation. Out of the total number of interviews and business units visited; 32 interviewees and two business units represent the newly acquired units and 20 interviewees and four units the older ones. In order to gain an employee, or organizational perspective, the informants came from various organizational levels and professions. Such diversity of informants is quite rare in the study field, where the dominance of managers as informants is prevailing (e.g. Birkshinshaw 2008; Teerikangas & Very 2006). The interviews have all been tape recorded and transcribed to the full. For analysis, the qualitative research software NVivo was used for organizing and coding the interview data.

5 Employee reflections on the different integration approaches

The data analysis was commenced by categorizing the data into two groups: a) acquisitions before the strategy implementation and; b) acquisitions after the strategy implementation. Then, the data was further analyzed in order to discover and capture the employee perspective on the applied integration approach. The respective findings of the study are a result of going back-and-forth between the data and the findings (Van Maanen et al. 2007). Finally, comparisons between the two approaches were made and conclusions of their
particular characters drawn. The following citations distinctively illustrate the key findings of the study.

**Acquisitions before the strategy implementation – evaluating the “slower” integration approach**

The soft integration approach implies that the two separate companies, through trust building and mutual understanding, eventually develop into a common organizational entity with a similar culture. The findings of this study imply, however, that if not actively managed the issues that people relate to or identify strongest within an organization remain unchanged. At the case company the loyalties towards the old product companies were still strong and the “us versus them”-mentality was evident. The old company brands represent the know-how, skills, professionalism and history of the organization that people are not willing to let go easily.

*I think there will be a lot of us and them sort of mentality for quite a long time. Especially with [product company A] because it has been so strong for so long time. And I think it will still be referred to for a long time to come. There is a lot of loyalty there.* (Fitter)

The difficulty in letting go the old culture is especially evident among the older employees. On the contrary, employees who have joined the company only after the acquisition are not as attached to the old product company. These newer or “younger” people have not created equally strong loyalties with the old company. Thus, the attachment of the older employees does not seem to pass on to their new colleagues.

*It (the new strategy) really hasn’t affected us I think. Not to this date anyhow it really hasn’t affected the majority of the employees at least in the workshop level. I mean we have fairly high turnover of staff here. And the people come in and my oldest employee at the floor is coming up 3 years in august. So it’s not hard to get that new name in. It’s different when you have got a lot of older, stable workers.* (Workshop manager)

*We have got a lot of loyal people at the moment in the age group between the 40s and 55s. Maybe it does not affect the younger people too much.* (Regional inventory manager)

The soft integration approach may not promote the employees’ understanding of the organization as a whole. Many interviewees were unsure of “who they are” as a corporation. Clearly, without a proper introduction to the organization and managerial efforts in getting the different parts of the corporation together, the members of the organization might not learn to know
the company as a whole. Without understanding what the organization is, or what it consists of, the identification with the entity is obviously impossible.

*There is a lot of confusion out there as to who we are.* (Fitter)

*I think a lot of people here wouldn’t even know what we are. I’m sure of it. They should be proud to be employed by [corporation] and they should really at least have an idea what we are about.* (Regional inventory manager)

There was also evidence that some people were totally unaware of the fact that they were already part of the parent company. Obviously, in such cases the integration has not proceeded at any level.

*I guess what was done was just putting everyone at ease by saying that there will be no big changes. Particularly in our level because people are worried about their job, who’s the boss going to be, what’s going to happen in the future. But a lot of people didn’t realize that [the parent company] already had a majority of [product brand A] side of things anyway. Majority of the people would not have known it.* (Workshop manager)

**Acquisitions after the strategy implementation – evaluating the “faster” integration approach**

For the newly acquired companies and their employees communication seems to be of high importance in the initial phases of integration. In terms of communication content it appears that employees need clear, informative and direct information. From an individual employee perspective, the information provided by the acquiring company has a significant role in motivating and reassuring the employees about their future. Thus, the messages will need to be highly relevant and directly targeted to the people. Uncertainty about the future creates concerns over employment that may even result people leaving the company.

*On the ground no one knows what’s going on to an extent “where do I fit into this place?” A lot of knowledge went out the door because people just didn’t know and weren’t sure. There should have been a lot more communication with a lot more people...You always want to know what’s going on and a clearer picture of what’s happening. They are not really concerned of what’s happening in Adelaide or Brisbane they want to have a clearer picture what’s happening to them.* (Customer service representative)
Most of the concerns are people’s jobs. What the company is going to be like when [the parent company] takes over? It’s the usual things. I think the most important thing is letting people know what’s going on. Because what happens is that if people don’t know they might start looking for work. Because they think I’m gonna start looking just in case. And then you lose good people because it’s gray and they don’t know where they are going. Sometimes you hear things from the wrong people. (Mechanical draftsman)

In terms of communication content the benefits that the merger is expected to bring to the company and to its employees should also be emphasized. According to Bower (2001) being acquired by a larger company can help a smaller company to solve a broad range of problems of which the employees should be made fully aware of.

[The parent company] is a lot more reputable, big, worldwide company compared to [the acquired company], which is a smallish company. People believe that there will be a lot more security with a big company. (Team leader)

With a bigger company I assume, I’m hoping there is more opportunities work wise. (Mechanical draftsman)

There’s no feeling that we have been bought by a company that we can’t be proud of, which is important. If we had been bought by a company that we didn’t have a great deal of respect for then I think everybody would have walked out. I don’t think there has been a huge amount of staff turnover since the acquisition. And really that speaks volumes about [the parent company]. (Product line manager)

The importance of respectful, friendly and welcoming communication environment was strongly supported by the informants. Getting people together and talking is important. Communication will evidently need to go in many ways and getting people to talk about the change is a good indication that the changes will take place eventually. Without discussion the change will not become reality. Furthermore, people will need to know who they can turn to in case of questions. Exposure and close contact to the parent company and other units is vital.

That was a problem that I had. I didn’t know who to talk to about anything. The important thing is to meet people. And they have been good in that. I think [the parent company] spends a lot of money on getting people together. (Product line manager)
I suppose it’s been fairly good. There is a large amount of personal contact, which I find quite good. And I think it’s probably unusual to some degree to a large company. (Product line manager)

The one good thing about [the parent company] that I have noticed is that they are a type of company that you could probably approach and you can talk to. Which I think is very important. People feel comfortable. If you make people feel comfortable and actually inform them I think it goes a long way. What you don’t realize is that a lot of the time the general workers, a lot of people don’t think they are important. (Mechanical draftsman)

I think there are steps towards it happening because people are talking about it. So that’s a good start. I think that if people weren’t talking about it then that would a measure that it is going to be a very long road. At least they are talking about it and things are starting to happen already. (Business development manager)

A good and concrete example of getting people together is moving them under the same roof. “Forcing” people to meet and to be in contact with each other on a daily basis will create good ground for co-operation and mutual understanding.

There are some facilities that are getting combined, which is a great start. (Manager)

An important aspect in communication environment is showing respect towards the acquired company, its history, culture and know-how. Mutual respect as suggested by Marks and Mirvis (1989) is considered very important in engaging the people to the change. Dictating and telling them what to do does not work, but it will only create resistance and bad feelings among the employees. One way of showing respect is to have the top-level managers of the acquiring company to show interest towards the acquired organization by visiting them.

It’s been much respected and thoughtful. Anyone hasn’t come over said “you will do this”. “You won’t do this anymore; you will do this the [the parent company] way”. “You’ll forget all your past”. (Technical support)

We have never met [the regional CEO], officially anyhow. I would have expected to see at least some visit of him here. There could have been more proactive input from [the parent company] management in Australia to sort of come in and say hello. (Technical support)
6 Discussion and conclusions

This study discusses the different approaches to post-acquisition integration. The study focuses on two different integration processes within a single corporation. The main objective of the study is to explore the different integration approaches and their effectiveness from the employees’ perspective.

Based on the study findings it can be suggested that the so called “soft” or slower integration approach may not lead to acculturation if not managed efficiently. In case integration is not actively managed the employees tend to hold on their past and their loyalties with the old unit and culture remain unchanged. This is especially evident with employees, who have been employed by the acquired company for many years. Particularly, when dealing with a strong organizational culture and identity, cultural integration needs to be actively managed as the mere influence of another culture or mutual understanding may not be sufficient for integrating the units at a deeper level.

In the “hard” or faster integration approach, on the other hand, the newly acquired employees are not as familiar with the parent company and the new situation causes insecurities and concerns, mainly over peoples’ jobs. In comparison, such concerns are not evident among the employees in the earlier acquired units. In eliminating the employees’ concerns a forceful approach as suggested by the hard integration approach is not recommended. Rather, a more respectful and welcoming approach trying to eliminate employees’ insecurities is called for. For these new employees, communication, its content and environment, seem to be critical in the initial phases of the process. In addition to the official managerial communication, creating possibilities for open discussion for all the organizational members is important as well. Getting people to discuss the change indicates that they are ready to look forward to the future and that the work of building a common organizational culture can begin.

Similarly as Larsson et al. (2004) suggest in their study, the findings of this study imply that the most efficient way of integrating units is by engaging the people to the change process. Engaging and getting people together from both sides and from all the levels is necessary in creating unity. Concrete methods such as moving the staff to same premises, for example, would support the process. Even more importantly, exploiting and sharing the competencies and resources or even corporate images seem to facilitate the integration. Thus, knowing “What’s in it for us?” or “What’s in it for me?” is essential.

Finally, in integrating two separate companies an interesting question arises: “how fast should integration actually proceed?” (Marks & Mirvis 1989). The findings of this study suggest that a high speed of the process
might not be detrimental to its success after all. Clearly, changing a culture takes a long time but the integration process itself does not need to be prolonged. Bower (2001) warns the acquirers of not to force the acquired companies to change and rush into new things too quickly. However, speed of actions does not need to equal rushing or forcing. Integration should proceed gradually (see e.g. Haspeslagh & Jemison 1991) with constant momentum, where the moments of uncertainty are probably most damaging to its success.

The implications for practitioners lie in more successful management of post-acquisition integration processes. Putting emphasis on employees’ needs and requests, understanding the importance of communication, effective management and the application of informal managerial methods are the key elements for success. Furthermore, acknowledging that cultural changes always take time requiring constant management, will improve the readiness to manage such processes.

References


CULTURAL INTEGRATION IN CROSS-BORDER ACQUISITIONS. A BRIEF OVERVIEW TO KEY CONCEPTS

Niina Nummela and Mélanie Raukko

Abstract

The relationship between culture and outcome of an acquisition is very complex, and the research findings remain contradictory (e.g. Teerikangas & Very 2006; Stahl & Voigt 2008), which is partly due to the ambiguous use of key concepts and overlapping constructs. This paper attempts to clarify the concepts related to cultural integration and suggest a multi-dimensional approach to conceptualize cultural integration. Several requirements regarding measurement need still to be explored. Moreover, it is important to note that national cultures are not only source of challenges but also pose significant opportunities for both the acquirer and the acquired (Hitt & Pisano 2004). Based on earlier research it is obvious that cultural differences matter in M&As, but more research is needed to understand how they affect the integration process and how can they be managed more effectively (Stahl & Voigt 2008). In managing cultural integration in cross-border acquisitions we would like to stress the importance of culturally-conscious management (cf. Pribilla 2002) instead of differences or similarities.

Keywords: cross-border acquisitions, cultural integration, cultural fit, acculturation, cultural distance, cultural awareness

1 Introduction

Cross-border mergers and acquisitions (M&A) are increasingly part of the everyday business. In 2007 the number and value of M&As reached their highest level ever. Although cross-border M&As are only one element in total foreign direct investment (FDI) flows, in many OECD countries they account for more than half of the total FDIs. (World Investment Report 2010.) Due to their international nature, cross-border M&As involve unique challenges, due

1 An earlier version of this paper has been presented at the HRM Conference, Turku, 2008.
to the various economic, institutional or regulatory and cultural structures (Hoecklin 1995; Child et al. 2001; Very & Schweiger 2001).

In the literature mergers and acquisitions are commonly used as synonyms, but although they share some similarities, in terms of ownership, control and management – for example – they are quite different. In an acquisition, the control of assets is transferred from one company to another, in contrast to a merger in which assets of previously separate firms are combined into a single new entity (Ghauri and Buckley 2003). The focus of this study is on cross-border acquisitions. In line with Shimizu et al. (2004), a cross-border acquisition is understood here as an acquisition in which the headquarters of the acquirer and the target are located in different countries.

From the managerial perspective the primary target after acquisition is to integrate the companies into well-functioning – but not necessarily single – unit sharing similar organizational culture. It can even be argued that the success of an acquisition depends how well the managers manage this difficult integration process at the newly purchased company (Legare 1998). However, the need for integration varies considerably. From the viewpoint of integration, the extreme cases include those in which the target remains wholly independent of the acquirer after the deal and the ones in which it is fully merged to the acquirer. Between these two opposite examples, numerous alternative degrees of integration exist, ranging from changes in top management and strategy to more comprehensive or selective merging of some functions. (Lees 2003.)

The integration occurs at several levels and it can be classified, for example, into procedural, physical and managerial integration (Shrivastava 1986) or task and human integration (Birkinshaw 1999). It has been argued that the different types of integration vary in implementation, and that particularly from the viewpoint of research, human and sociocultural integration have aroused too little interest (Björkman et al. 2007).

Cultural integration may vary from extension acquisitions to collaborative acquisitions and finally to redesign acquisitions. In extension acquisitions cultural differences between the organizations are accepted and considered unimportant. On the other hand, in collaborative acquisitions differences in organizational culture can be seen as potentially adding value to the partnership. Finally, redesign acquisitions take place when the acquiring organization introduces important changes and where usually the target company adopts the practices, procedures and culture of the dominant organization. (Cartwright & Cooper 1993, 63–64.)

The context of cross-border acquisition brings additional challenges to the post-acquisition integration, as the parties represent different nationalities and, thus lack a common cultural frame of reference. It has also been argued that
sometimes companies underestimate the complexity of cross-border acquisitions (Nadolska & Barkema 2007). Additionally, the institutional contexts may differ between the countries and both types of obstacles may increase the perceived cultural differences between parties. (Olie 1994.) However, the relationship between culture and outcome of an acquisition is very complex, and the research findings remain contradictory (e.g. Teerikangas & Very 2006; Stahl & Voigt 2008). This is partly due to the ambiguous use of key concepts and overlapping constructs. This paper attempts to clarify the conceptual basis of cultural integration in cross-border acquisitions and make suggestions how it could be analysed in future studies.

2 Culture in cross-border acquisitions

Buono et al. (1985) stated already almost two decades ago that combining two different organizational cultures is one of the major difficulties in acquisition, and the topic has remained a salient factor affecting the acquisition process as well as its outcomes (e.g., Hitt & Pisano 2004, Krug & Nigh 1998, Cartwright & Cooper 1995). The challenge for managerial integration is probably even bigger when the parties represent different national cultures (Lees 2003, Weber et al. 1996, Olie 1994).

Although generally culture has been defined in numerous ways, in the context of cross-border acquisitions most authors seem to focus on one level of culture, i.e. national or corporate culture (Weber et al. 1996). The organizational level here relates with acquisition-related changes in the corporate/organizational culture of the target company. These changes may manifest themselves, for example, in the values, self-image, work-related norms, organizational practices (management and control, treatment of employees, artefacts) and power structure in the firm (cf. Lees 2003, Cartwright & Cooper 1992). The acquirer may try to manage the cultural change on organizational level, but it has to be kept in mind that change processes in organizational culture are complex, slow and bound to encounter resistance (Schein 1989).

Organizational culture has been defined as comprising both subjective and objective cultures. The subjective organizational culture refers to the members’ shared pattern of beliefs and assumptions as well as way of perceiving the organization’s environment and norms and values², while the objective organizational culture refers to the artifacts created by an

organization. The shared experiences help developing a repertoire of symbols and shared meanings, which will enhance the organizational identification and the forming of new organizational culture. (c.f. Buono et al. 1985.)

In addition to cultural clashes on organizational level, in literature on cross-border acquisitions, the differences in national cultures are highlighted. Cultural integration should be also evaluated on national level because organizations are embedded into national cultures which reflect shared historical experience and institutions. As members of one nation are expected to share a common set of values which shape their preferences for many issues (cf. Hofstede 1980), it can be assumed that in cross-border acquisitions the interface extends beyond one’s own culture and the parties are bound to encounter something different (Lees 2003). Additionally, organizations with distinct national cultures are likely to favour diverse means in order to implement the desired changes (Laurent 1989).

Consequently, from an organizational viewpoint, acquisitions are dramatic events that trigger various kinds of changes in the organizational culture (Vaara et al. 2003). Cross-border acquisitions are particularly interesting research objects, because they bring together firms with different organizational cultures as well as different national cultures (Larsson & Lubatkin 2001, Weber et al. 1996), thus increasing the probability and degree of adaptation required. Research findings suggest that in cross-border acquisitions, both national and organizational cultures play an important role (Weber et al. 1996). Hence, in the context of cross-border acquisitions cultural differences should be interpreted broadly, both from the national and organizational culture point of view.

3 Acculturation – the underlying process in cultural integration

Acquisition is not an end but a start for a complex social identity-building process both on organizational and individual level (Vaara et al. 2003). In this lengthy process a new social identity is created, based on joint experiences, beliefs, values and assumptions (Larsson & Lubatkin 2001, Olie 1994). The aim is a jointly shared, constructive culture (Larsson et al. 2004).

In acquisitions two simultaneous processes takes place: reconstructing one’s own identity in relation to the other party (images of Us and Them) and a common identity in the new organization (images of Common Future) (Vaara et al. 2003). Additionally, as mentioned earlier, in a cross-border acquisition one needs to keep in mind that acculturation is double-layered, i.e., adjustment both to a foreign national and foreign organizational culture is required (Barkema et al. 1996). The co-existence of two layers of culture
which the companies must contend creates potential for additional conflict (Hitt & Pisano 2004).

Earlier research has shown that there is no universal way for acculturation but instead, numerous paths lead to the same end result and also the degree of acculturation may vary. For example, Sales and Mirvis (1984) distinguished three levels of acculturation after an acquisition: cultural pluralism (partners cultures are allowed to coexist), cultural integration (at least partial integration of cultures) and cultural assimilation (the culture of one party is absorbed by the other). Another well-cited classification has been presented by Cartwright and Cooper (1992) who state that acculturation may take the form of assimilation, separation, deculturation or integration, depending on the parties’ satisfaction with the existing culture and the attractiveness of the other culture.

In addition to satisfaction with own culture and the attractiveness of the other, also other factor have been found significant in determining acculturation. These include, for example, autonomy retrieval, relatedness, relative size of parties, social control and national culture (Larsson & Lubatkin 2001). Barkema et al. (1996) also found that in ventures which required double-layered acculturation, the parties attempted to increase their cultural fit through learning.

It is very probable that the members of the acquired company experience some kind of acculturative stress – when they are expected to adopt to another culture – and the level of this stress depends on the cultural differences between the acquirer and the acquired (Very et al. 1996). The progress of acculturation can be followed through employee resistance, which is employees’ reaction to the acculturation process (Hartog 2004). The sources of employee resistance may be individual or collective and they may originate from different cultures but additionally from communication problems and negative effects of acquisition on personal level (Larsson et al. 2004). The resistance is highest in situations which involves both high level of organizational and personal uncertainty (Hartog 2004).

Acculturation takes time, and therefore it is challenging for research to draw any definite conclusions on acculturation. Additionally, we have to keep in mind, that organizational culture is a dynamic phenomenon and thus under constantly ongoing change (Schein 1989). Therefore, acquisition is not an end of one culture but it could be described as a critical turning point in the development path towards a new joint organizational culture between the integrating organizations.
4 Cultural fit in cross-border acquisitions

4.1 Cultural distance

When evaluating cultural similarities or differences, two related and partly overlapping concepts are often introduced: cultural and psychic distance. Traditionally the geographical or physical distance has been perceived as risk in cross-border acquisitions (Erkkilä 2001, 38). Beckerman (1956) defined psychic distance already in the late 1950’s as a country being “nearer” in a psychic evaluation. The Uppsala school defined psychic distance as “the sum of factors preventing or disturbing the flows of information between firms and markets” (Johansson and Wiedersheim-Paul 1975, 308; Brewer 2007, 44). In international business literature, psychic distance has been seen as an important predictor of international market selection (Brewer 2007, 44).

Whereas psychic distance is evaluated on individual level, based on respondents’ subjective perceptions, cultural distance is an organizational-level construct which refers to the differences between cultural values between countries (Sousa & Bradley 2006). It has been defined as “the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to the knowledge flow and hence also for other flows between the home and the target countries” (Luostarinen 1979, 131-132). Sousa and Bradley (2006) even argue that psychic distance is determined by cultural distance, together with other factors. Consequently, cultural distance can be viewed as one component of psychic distance (Dow & Karunaratna 2006, 581, 591).

In the context of cross-border acquisition, cultural distance reflects the acquirer’s ability to apply its strategic advantages to a different location (Shimizu et al. 2004). It could be assumed that a lower cultural distance would also mean easier integration of the companies. Thus the national cultural distance appears to have a significant effect on cross-border acquisition performance, as managers might be accessing diverse routines and repertoires which are beneficial to their performance. (Morosini et al. 1998, 153–155.) However, earlier research findings are slightly contradictory and actually instead of distance, both parties’ familiarity with the business environment or socialisation may be more decisive (Larsson & Lubatkin 2001, Weber et al. 1996).

The contradictory findings are probably at least partly due to the conceptual ambiguity. A large amount of studies use the terms cultural distance and psychic distance interchangeably (Sousa & Bradley 2006, 50). Both constructs have been measured with same indicators, mostly based on Hofstede’s index.
of cultural dimensions and the index developed by Kogut and Singh (1988) (a modification of Hofstede’s (1980) four dimensions of culture).

More recent research has argued that the role of psychic distance might play a more critical role than geographical distance (cf. Hofstede 1980; Fang, Fridh & Schultzberg 2004; Vaara, Tienari & Laurila 2006). According to the psychic distance paradox operations in psychically close countries are not necessarily easy to manage, because perceived similarity can prevent executives from learning about critical differences and they can fail as they do not prepare for differences (O’Grady & Lane 1996).

Consequently, when a cross-border acquisition takes place in countries with seemingly similar cultures the acquiring company may consider the markets to be similar to its own and does not consider small but crucial differences very seriously (e.g. Angwin & Savill 1997, 429; Fang et al. 2004, 591). Research evidence on cross-border acquisitions among organizations from neighbouring countries, who should according to Hofstede (1991) have similar cultures, illustrate how mergers between two organizations with seemingly similar cultures may fail (see Tienari, Vaara & Säntti 2000; Fang et al. 2004; Nummela 2004). Moreover, research results imply that the impact of the national historical background should not be neglected (Fang et al. 2004).

Consequently, companies should assess the cultural distance when considering a potential target organization. It has been argued that in cross-border acquisitions, differences in national culture predict better stress, negative attitudes toward the integration, and actual cooperation than differences in organizational culture. Thus, national cultural distance is an important factor to consider when deciding about, and carrying out, a cross-border acquisition (Morosini et al. 1998, 155). However, they should not focus only on cultural differences but also assess cultural similarities (c.f. O’Grady & Lane 1996; Fang et al. 2004).

Additionally, one should keep in mind that the impact of cultural differences cannot be isolated from other integration-related factors (Björkman et al. 2007). Research findings regarding cultural differences and M&A performance are mixed. A recent meta-analysis of 46 studies clearly suggests that cultural differences matter, but they seem to represent a “double-edged sword”. Hence, cultural differences can be both an asset and a liability in an M&A. (Stahl & Voigt 2008.) Instead of solely focusing on cultural distance, perhaps researchers should turn also their interest into culture-related management characteristics which facilitate cultural integration, such as cultural awareness.
4.2 Cultural awareness

A large amount of research on international M&As have focused on cultural differences, and increased cultural awareness has been suggested as way to overcome the differences (Risberg 2001, 59). Consequently, employees of formerly independent organizations have to learn to understand each other’s cultural assumptions and find ways to bridge the gaps between them. Moreover, they need to avoid cultural clashes, which would lead to disintegration. (Bijlsma-Frankema 2001, 199.) Although cultural distance brings its own challenges to cultural integration, adequate training of the managers can increase their cultural awareness in cross-cultural interaction and they may reach a psychological position where “my culture’s ok, your culture’s ok” (Park & Harrison 1993; also Cartwright & McCarthy 2005). Thus, it can be argued that the role of cultural distance can be diminished with increasing culture awareness. However, it has been argued that training alone will not solve the problem, and there are other factors than the individual such as location determining the success of the business operation abroad. (Bonvillian & Nowlin 1994.)

Cultural awareness refers to situations where cultural dimensions are reported and also perceived as being different. Consequently, the individual knows that his/her culture is different but also know what to expect from each other. Identifying differences correctly enhances the selection of appropriate tools to deal successfully with differences. (Fraser & Zarkada – Fraser 2002.) In addition, research implies that history can have an important role in cross-cultural management and especially during the pre-acquisition negotiation phase. Consequently, in seemingly similar cultures historical emotions between the countries of origin of the target and acquiring company should be acknowledged. (Fang et al. 2004.) Thus, in cross-border M&As cultural awareness refers to a broader awareness of the target culture in question.

It has been argued that involving employees in various socialization activities such as introduction programs, training, cross visits, celebration and other such socialization rituals would enhance the creation of a joint organizational culture as long as they are allowed autonomy. Especially joint informal interactions would appear to be effective in achieving acculturation. (Larsson & Lubatkin 2001.) Consequently, involving employees in various socialization activities and rituals not only increases cultural awareness but also may be effective in achieving acculturation.

Research implies that in cross-border acquisitions cultural differences are expected and acquirers tend to have high cultural awareness. The managers of the acquired company are less likely to resist changes because of those differences. (Risberg 2001, 59.) However, high cultural awareness doesn’t
necessarily ensure successful integration, as merging organizations should both accept the terms of integration (c.f. Cartwright & Cooper 1993). The interaction between people from different cultural backgrounds often leads to misinterpretation or different interpretation. In cross-border acquisitions different management styles may be the reason for many ambiguous situations. (Risberg 2001.) Consequently, in cross-border acquisitions cultural awareness should be broadly understood as awareness of ambiguities.

4.3 Why to study cultural fit?

The degree of compatibility, or cultural fit, between the two merging organization has been acknowledged as one of the reasons why many M&As fail to meet expectations (cf. Buono & Bowditch 1989; Cartwright and Cooper 1993; Olie 1994; Larsson and Finkelstein 1998). Cultural fit is often defined in literature through cultural differences or cultural clashes (c.f. Datta 1991; Cartwright & Cooper 1993; Weber 1996).

The strategic school has focused much on issues related to strategic fit and synergy realization, while on the other hand organizational behaviour scholars have been more concerned with issues related to the impact of the acquisition on individuals and the organizational culture and issues concerning the “cultural fit” (see Haspeslagh and Jemison 1991; Datta 1991; Birkinshaw et al. 2000). Nevertheless, organizational fit is not quite synonymous with the concept of cultural fit. Organizational fit refers to the ease with which the two organizations can be assimilated after an acquisition, and although it can be assessed along various dimensions, it usually refers to merely procedures and practices in each company (c.f. Datta 1991). Cultural fit is broader and refers to fit in respect of both organizational and national culture (e.g. Weber et al. 1996).

It has been argued that the greater the dissimilarity between the organizational culture types, the more problematic and the longer the integration phase (Cartwright & Cooper 1993). However, research suggests that the cultures of merging organizations are not necessarily bound to clash simply because they are different (cf. Very et al. 1997; Larsson & Lubatkin 2001). Moreover, cultural similarity is not necessary a prerequisite for a successful integration, and in some cases, it may be an impediment. Consequently, the combination of two organization with a e.g. power culture.

---

3 Harrison (1972) proposes that there are four main types of organizational culture: power, role, task/achievement and person/support.
of which one of the main characteristic is the centralization of power, may be very problematic. (Cartwright & Cooper 1993.)

Successful integration depends upon the shared perception of both the target and acquiring company on the aspects of the other culture that are worth preserving. In other words, whether the integration aims at a single culture, multiple cultures or a mixed culture (cf. Pribilla 2002). It is natural to assume that cultural clash is more probable in acquisitions where need for integration is more significant (Weber et al. 1996, Nahavandi & Malekzadeh 1988). Anglo-American mergers often represent re-design acquisitions, where the dominant acquirer takes over the target by imposing its own practices and culture. However, it can be argued that these kind of ‘clear cut’ cases are not the most problematic, but the greatest challenges are the ones where the situation is undecided. (Cartwright & Cooper 1993.)

Cultural ambiguity – i.e. situations where there are uncertainties concerning whose style or culture is dominating (Buono, Bowditch and Lewis 1985) – may be considered as one of the key sources of acculturation stress (e.g. Very et al. 1996). Nevertheless, high cultural compatibility alone is not a sufficient prerequisite for smooth cultural integration, because it also depends on the willingness of the two organizations to fit and integrate (e.g. Cartwright and Cooper 1993; Olie 1994).

However, although cultural fit or compatibility has been frequently mentioned as a potential factor leading to M&A’s failures, it has not been well defined (e.g. Cartwright & Cooper 1993; Weber 1996; Teerikangas & Very 2006) and there has been relatively little empirical research about this phenomenon (Björkman et al. 2007; Veiga et al. 2000; Datta & Puia 1995). There have been attempts to assess corporate culture, however, these have primarily examined dimensions of a single culture, but not the dynamics of compatibility between two merging cultures. Moreover, due to the lack of measures of cultural compatibility our understanding of the relationship between cultural differences and acquisition outcomes has remained limited, and the studies with meaningful cross-cultural comparison across organizations and nations scarce. (Veiga et al. 2000; Weber et al. 1996.)

In order to assess cultural fit an in-depth culture audit is a necessity to identify similarities and differences between core values, beliefs, attitudes, and managerial style of the target company and the potential acquirer (e.g. Pribilla 2002; Cartwright & Cooper 1993, 59). A culture audit can be conducted in various ways, using observations, interviews or questionnaires (Cartwright & Cooper 1993, 59). Recently, this audit has been labelled as cultural due diligence, including e.g. evaluation of hierarchies and symbols, management style, openness of interaction, decision-making, error tolerance and other indicators for corporate culture (Pribilla 2002). It is important to evaluate
already during the due diligence phase whether the two companies can be productive together by evaluating the culture, the vision, the strategy and the goals of both companies (Chaudhuri & Tabrizi 1999, 127), and if the target would require massive changes, one might question whether it is worth of acquisition at all (Cartwright & Cooper 1993, 67–69). Unfortunately it seems that this kind of auditing is quite rare in practice (see for example Lodorfos & Boateng 2006). One important reason being the confidential nature of negotiations and limited access to data prior to any agreement to purchase (Cartwright & McCarthy 2005, 258–259).

Research on cultural differences has clearly demonstrated the importance and the role of culture in cross-border acquisitions (Stahl & Voigt 2008). It has been argued that the existence of a good cultural fit between merger partners alone would not guarantee wealth creation in M&As without adequate human integration planning and communication. Moreover, in order to obtain a deeper understanding of cultural fit there is a need for researchers to merge their knowledge and perspective and to adopt a more multidisciplinary approach that embraces diversity. (Cartwright & McCarthy 2005, 264.) Consequently, despite decades of research cultural fit in the context of cross-border acquisitions remains still an interesting research agenda. This paper proposes a multi-dimensional approach to conceptualize cultural integration as a whole

5 Discussion and conclusions

Cultural integration is a very complex phenomenon in the context of cross-border acquisitions. In this paper we have presented several constructs to analyse the cultural similarities and differences. The constructs are strongly intertwined and in our opinion it is worthwhile clarify their relationship (Figure 1).
The cultural fit of the acquirer and the acquired can be evaluated with two dimensions: cultural distance and cultural awareness, both of which are important in forming the ‘perfect fit’. First, cultural distance reflects the differences between the cultural values of the home countries of both parties, and second, cultural awareness the managers’ ability to adapt to the identified differences. Both concepts may have either positive or negative impact on the cultural fit.

On the one hand, although we often assume that increasing cultural distance would lead to more significant cultural clashes, researchers have pointed that actually low psychic distance doesn’t necessarily mean that cultural integration would be easy to manage. Instead, managers should treat even culturally close markets as truly foreign markets (O’Grady & Lane 1996). On the other hand, high cultural distance can be compensated with cultural awareness: a high cultural awareness might help the managers to both identify and adapt to cultural differences, thus increasing the cultural fit of partners. Nevertheless, we argue that high cultural awareness alone does not necessarily diminish the risk of cultural clashes.

Our arguments related to the key constructs and their relationships may be expressed in the form of following propositions:

- **P1**: Low cultural distance has a positive impact on the cultural fit of the parties.
- **P2**: High cultural awareness has a positive impact on cultural fit of the parties.
- **P3**: The cultural fit of parties is highest when the cultural distance is low and cultural awareness is high.
- **P4**: High cultural awareness alone is not a sufficient precondition for high cultural fit.
**P5: High cultural fit does not necessarily lead to successful cultural integration.**

Although generally culture has been defined in numerous ways, in the context of cross-border acquisitions most authors seem to focus on one level of culture, i.e. national or corporate culture (Weber et al. 1996). We argue that this kind of unidimensional approach will reveal only a part of the very complex process taking place. Instead, by studying several dimensions – including e.g. local/global aspect, low/high cultural awareness and the required degree of integration – a more complete picture could be drawn. And yes, some of the various dimensions of integration can be managed but still – as always – serendipidity plays a role. Particularly various process-related issues are often outside the control of the manager (Jeminson & Sitkin 1986). In takeovers, the acquirer can be prone to impose its managerial and cultural practices. However, from a sustainable human resource management perspective limited cultural integration might lead to better results.

Previous research focusing on culture and M&A have been contradictory (see e.g. Teerikangas & Very 2006; Stahl & Voigt 2008). A recent meta-analysis of 46 studies raised a number of conceptual and methodological concerns (Stahl & Voigt 2008). It has been argued that our understanding of the relationship between e.g. cultural differences and acquisition outcomes has been constrained by the lack of measure of cultural compatibility that can make meaningful cross-cultural comparisons across organizations and nations. In addition the nature of the M&A research field is challenging, and the difficulties in obtaining data from several top executives of acquired firms tend to constrain a number of activities associated with traditional measure development. (Veiga et al. 2000). A majority of studies measures e.g. cultural distance using the index developed by Kogut and Singh (1988), a composite measure of Hofstede’s (1980) dimensions of national cultures, although the conceptual and methodological problems of the cultural distance construct in general and the Kogut and Singh (1988) index are well documented (Stahl & Voigt 2008).

Consequently, there is a need for the operationalization of cultural integration in M&As. This paper attempts to clarify the concepts related to cultural integration and suggest a multi-dimensional approach to conceptualize cultural integration. Several requirements regarding measurement need still to be explored. Moreover, it has to be noted that M&As are challenging regarding empirical data collection, as they tend to involve personally and politically sensitive subject matter (Larsson & Lubatkin 2001). In addition, the unit of analysis should be carefully considered as nations and organizations are increasingly heterogeneous (e.g. Usunier 1998; Jacob 2005; Schreyögg 2005).
Nevertheless, in this paper we would like to emphasise the fact that national cultures are not only source of challenges but also pose significant opportunities for both the acquirer and the acquired (Hitt & Pisano 2004). Cultural differences can also be utilised to enhance the combination potential in the integration process (Björkman et al. 2007). Hence, cultural differences may have both negative and positive impact on M&A performance. Based on earlier research it is obvious that cultural differences matter in M&As, but more research is needed to understand how the affect the integration process and how can they be managed more effectively. (Stahl & Voigt 2008) As mentioned earlier, more research is needed regarding culture-related management characteristics which facilitate cultural integration, such as cultural awareness. Concluding, in managing cultural integration in cross-border acquisitions we would like to stress the importance of culturally-conscious management (cf. Pribilla 2002) instead of differences or similarities. This approach should also enhance sustainable human resource management in the long run.

References


MANAGING CULTURAL CHALLENGES IN CROSS-BORDER ACQUISITIONS: CASE STUDY ON POST-ACQUISITION INTEGRATION OF MNC AND CHINESE FAMILY-OWNED COMPANY

Santeri R. Mäkinen

Abstract

While acquisitions have become an increasingly popular strategy for corporate growth, the performance of most acquisitions has been disappointing. Earlier research indicates that the cultural differences are the main source of failure in cross-border acquisitions, and therefore the cultural challenges need special management attention. This is evident especially in acquisitions between companies of significantly different business cultures as in the case of acquisitions of local companies in China by western companies which are considered as an extreme scenario of cross-border acquisitions. The purpose of the paper is to deepen our understanding on how the cultural challenges are being managed during the integration process by focusing the integration process of a western MNC and a Chinese company. The process is examined through evaluations on the integration approach, on the integration speed and on the assembling of the integration project management. According to the research findings the acquiring company was able to manage cultural challenges and therefore to mitigate cultural clashes by striving for a sensitive integration approach, by applying moderate integration speed and by appointing local managers for its integration team and especially in the level of integration leaders. Moreover, the research findings indicate that cross-cultural training, on-board team building, informal communication and quick decision-making needs to be emphasized while managing post-acquisition integration process in China.

Keywords: cross-border acquisition, integration, culture, China

1 This article is based on the findings of the M.Sc. thesis of the author at the Turku School of Economics.
1 Introduction

M&A are widely recognized as the primary way for companies to grow and to expand their scope business. While M&A have become an increasingly popular strategy for corporate growth, for diversification and for gaining new capabilities, the financial and operational performance of most M&A have been disappointing and therefore resulted in loss of shareholder value (Stahl, Mendenhall, Pablo & Javidan 2005, 3; Bartlett 2007, 11). Various consulting firms have estimated that two-thirds of M&A do not live up to the expectations, and many result in divestures (Schweiger 2002, 4). Papadakis (2007, 48) indicates that the cultural differences both on the national and organizational level are the main source of failure in cross-border M&A. Thus, the way companies handle cultural issues is probably the single most decisive factor that can make or break a deal. Furthermore, not only the factors of distance, language and political context but also the different management styles and ways of doing business, all make cross-border acquisitions far more complex endeavor compared to domestic acquisitions. Especially if acquisitions are conducted across continents, the complexity can be overwhelming. (Lees 2003, 215.) Scalabre (2005, 80–81) indicates that acquisition of local companies in Northeast Asia countries such as China by western companies is an extreme scenario in cross-border M&A due to significantly different business cultures.

Buono and Bowditch (2003, 134) argues that one of the underlying reasons why mergers and acquisitions often fail to achieve the expected level of performance, are the conflicts and tensions that emerge when companies try to integrate disparate and frequently dramatically different cultures. Cross-border acquisitions seem to be particularly difficult to integrate because they require double-layered acculturation, whereby not only different corporate cultures, but different national cultures also have to be combined (Weber, Shenkar & Raveh 2006, 1223). Cartwright and McCarthy (2005, 255) indicate that cultural differences are exacerbated by a lack of cultural sensitivity and cultural arrogance amongst those responsible for M&A management. Cultural conflicts occur when employees are required to work together without shared understanding of their counterpart’s culture, which poses threats to effective integration (Goulet & Schweiger 2006, 415; Chakrabarti and Mitchell 2006, 5).
2 Conducting the empirical study

This paper is a qualitative case study of a post-acquisition integration process between a multinational corporation and a Chinese privately owned company. The acquisition was announced in autumn 2009 and the researched integration process was still an on-going process when the research interviews took place. However, the initial integration phase was for most parts finished at the time of the data gathering. In total 17 senior managers were interviewed, 12 from the acquiring company (Corporation X) and 5 from the acquired company (Company Y). The interviewed managers comprised the integration project management team which was responsible for combining the two companies. The acquiring company, Corporation X (X), is U.S. based multinational corporation with 6,500 employees and operations in more than 150 countries, whereas the acquired company, Company Y (Y), is a privately owned, family run Chinese business with 250 employees and only national operations. In addition to organic growth the acquiring company has grown mainly through acquisitions and therefore growth-through-acquisition is considered to be a generic strategy for Corporation X.

The earlier research on the topic has not provided resolution in which way the challenges arising from the cultural differences between the organizations can be managed and controlled in order to prevent cultural clashes occurring during the integration process. Consequently, this paper concentrates on the ways the acquiring multinational corporation with extensive M&A experience outside China is managing the integration process within the region in an acquisition where both parties are from very different cultural background both on national and organizational culture level. Thus, the research results of this paper not only provide the case company with tools to improve both its integration management processes and integration guidelines for its future M&A activities in China, but also raise theoretical discussion on the ways to manage cultural challenges in post-acquisition integration under a cross-cultural circumstances, especially in the Chinese context.

However, some limitations still remain. First, as the qualitative research was based on a single acquisition, the research results may not be completely generalized to other cross-border acquisitions. Secondly, the empirical research was based on interviews with the integration management of the two companies and therefore only the managerial point of view of how the cultural challenges have been managed has been covered in this paper.
3 Managing cultural challenges

Operational integration is certainly the most critical phase of the whole acquisition process in which different organizations, corporate cultures, management styles, systems, structures and processes need to be brought together to allow expected synergies to emerge (Gerpott and Bloch 1992, 5). Studies show that companies that place a strong emphasis on post-acquisition integration surmount cultural differences more easily and manage the entire integration process more efficiently (Pribilla 2002, 328–329.)

3.1 Post-acquisition integration approach

Weber (1988, 45) observes that there are different kinds of acquisitions with respect to the degree of integration between the two parties for the purpose of the combination. Buono and Bowditch (2003, 71–72) point out that while the common assumption of post-acquisition activities suggest that two companies are fully integrated into each other, a number of possibilities exist ranging from total autonomy to total absorption. Thus, at one end of the continuum functions are maintained as totally separate functions and the acquired firm maintains their corporate identity, personnel changes are minimal, and only some degree of control is exerted by the acquiring firm. At the other end, similar functions are fully integrated into one unit as a set of shared activities which may result in loss of corporate identity, reductions in work force and in exerted control of the acquiring company across all operations. Between the two extremes presented above companies can be integrated on various different levels with coordinating functions and clearly stated guidelines for future cooperation. Larsson (2005, 188) suggests a co-competence integration approach where best practices from both the acquiring and the acquired company are combined during the integration process. Consequently, it is essential to mutually identify and respect the competencies of the other firm in order to pursue the superior co-competence approach to organizational integration.

Vaara (1995, 29–30) observes that the implementation of different acquisitions should be managed in different ways. Integration of a friendly acquisition of a successful firm is to be followed by the “hands-off” approach where the autonomy of the acquired firm is being preserved. On the contrary, in the integration of a hostile acquisition of an unhealthy firm should follow an intensive and aggressive “hands-on” approach where the weak acquired management should be replaced by management talent of the acquiring company. However, Goulet and Schweiger (2006, 411) draw attention to the
fact that when there is a large cultural gap between the combined organizations, the acquiring company should strive for less intensive form of integration. Moreover, while the integration may result in costly and time-consuming changes, it is suggested that the integration stage engage the “principle of minimum intervention” in which only those functions and lines of business that are necessary for realizing the sources of synergy and both strategic and financial objectives underlying the acquisition should be integrated (Schweiger 2002, 155).

In addition to the integration approaches discussed above Navahandi and Malekzadeh (1988, 10–12) observe three integration strategies depending on the type of acquisition, the acquiring company’s degree of multiculturalism, the acquired company’s attractiveness to the acquirer, and the acquired company’s wish for preservation. In the case where the acquired management wishes to preserve their own culture, as well as to remain independent and autonomous, but the same time are willing to be integrated into the acquiring company’s structure, the recommended implementation strategy is the integration mode which leads to structural assimilation of two organizations, but little cultural and behavioral assimilation. However, in cases where the acquired company has been unsuccessful and their organizational culture and practices have been dysfunctional for the organization, assimilation strategy is the most expectable mode to be used where the acquired company willingly adopts the culture of the acquiring company. In contrast, separation mode usually takes place when the acquired company wishes to stay completely independent and separated from the acquiring company, integration strategy of which is usually applied for unrelated acquisitions.

Schreyögg (2005, 110–116) observes two different approaches for corporate culture integration from which the acquiring company can choose from: either a pluralist corporate culture or a universal corporate culture. The pluralist corporate culture approach signals tolerance and respect to former competences and skills, and therefore makes the acceptance of the acquisition easier for the acquired personnel. However, Lees (2003, 123) points out that the core problem in the partially merging approach is the persistence of two organizational cultures and their respective subcultures side by side in the same company. As a contrast to the pluralist approach there are two main options for realization of a universal corporate culture approach: either to absorb the acquired company into the existing corporate culture of the acquiring company or to merge the existing cultures in order to bring about a new amalgamated corporate culture. This approach is perceived to be especially challenging in cross-border acquisitions where national cultures constitute possibly conflicting cultural dimension.
Heenan and Perlmutter (1979, 17–21) indicate that company can select between four basic predispositions as to its cross-cultural management and organization. First, if company follows an *ethnocentric* approach, it aims to implement its core organization’s and home-culture models of management throughout its organization. Second, *polycentric* organizations decentralize their management and culture so that each local or peripheral part of the organization is expected to follow its own host-culture patterns of organization and management. Third, when company follows the *regiocentric* approach, it attempts to build its international organizations either according to the geographic or cultural regions. As the three first approaches represent geographically dependent strategic thinking the same cannot be said on the fourth approach. *Geocentric* companies endeavor to develop both processes and approach to management that are simultaneously universal and local.

Former research indicates that there is no general superiority of one alternative over the other. Thus, choice between the approaches discussed above cannot be separated from the context of the acquisition. Rather, it has to be embedded into the overall acquisition policy and the question of internal complexity. (Schreyögg 2005, 110–116.)

As an integral part of integration approach, retaining of the acquired senior management is required to be discussed and evaluated. Teerikangas (2008, 88–91, 151) indicates that retaining of acquired company’s top management is seen to have various positive effects: firstly, retaining the top management communicates parent company’s respect and trust in acquired company’s top management and the acquisition does not seem like a takeover. Secondly, retaining the top management is means to use the local management as a positive driving force for organizational change in the acquired company and for preventing cultural clashes which essential in cross-border acquisitions where the national culture distance between the companies is great. However, Lees (2003, 257) argues that in the cases where the acquired top management is retained it is suggested for the acquirer to appoint managers of their own into the acquired unit to keep on track what happens in the acquired unit and to continue the functional integration after the initial post-acquisition integration process has been finished.

Whatever the integration approach the acquiring company has chosen is, it has a profound influence on the speed of integration actions taken after the transaction has been closed and the post-acquisition combination started. If the list of things to be changed is extensive or sensitive integration approach is utilized the period of time used for the integration is expected to be longer, whereas a short integration checklist or an aggressive integration approach leads normally to quicker integration pace.
3.2 Speed of integration

One of the key issues facing the integration leaders is how fast they should execute the integration process. Schweiger (2002, 162) defines the integration speed as the time it takes to make changes in the acquirer, target or both and thus integrate firms. There is wide consensus among researchers that the process should move quickly since speed avoids periods of uncertainty in direction, not only in the organization but also in the marketplace. However, others argue that integration process should move in slower pace whereby careful assessments of how the organizations should be combined can be made. Thus, the integration leaders should be realistic as how long it might take to implement change. Some functions may require significant time to integrate, even after integration changes have been agreed to. (Schweiger & Lippert 2005, 38–39.) Schweiger (2002, 162) points out that speed avoids periods of uncertainty in direction of the organization and not only set early expectation that changes will be made but also mitigates some of the buildup of resistance to change.

Vester (2002, 38) indicates that speed is essential in the integration process and that the process should proceed so quickly that everybody involved in the project consistently feels a bit uncomfortable with the rapid pace. On the other hand, Olie (1994, 399–403) argues that slow integration process can be appropriate to minimize conflicts between the acquiring and acquired sides. The speed of post-acquisition integration is often linked to the quality of pre-deal planning. Teerikangas (2006, 94) indicates that acquisitions in which the pre-deal integration planning has been carried out, timely and prompt immediate post-deal action could be taken. However, Nupponen (1995, 59) argues that the integration process has been described as an art of managing unexpected events and findings, and therefore the pre-planning of integration does not automatically guarantee successful and prompt integration process.

Colombo, Conga, Buongiorno and Gnan (2007, 215) draw attention to the importance of rapid start of integration process after acquisition announcement. The longer the acquiring company waits before starting the integration process the more likely it is to fail. Stahl and Sitkin (2005, 90–91) argue that while many authors suggest that the integration outcome depends on the window of opportunity during the first 100 days following the acquisition, the moderate speed of integration is advisable. Fast enough to reduce anxiety, but slow enough to provide thorough communication among all parties involved. Pribilla (2002, 318) indicates that both a gradual and rapid approach have advantages. The gradual approach allows for thorough analysis of acquired company’s products, markets, customers, and both employee and management potential. Employees and managers are able to actively
participate in the integration process and adapt to impeding changes. However, the gradual integration approach does not tackle the issue of extreme uncertainty of employees during the process which usually leads to reduced productivity. On the other hand the rapid integration counteracts this disadvantage which enables the main focus on the market requirements and avoids energy loss due to friction. Biljsma–Frankema (2004, 256) continues that quick pace for change in the acquired organization is an effective way to solve the issue of cultural differences which threaten the chances of integration success. However, O’Rourke (1989, 225–226) suggests that delaying the integration and change within the acquired unit as long as possible is the most preferred option in order to improve the probability of post-acquisition success.

Homburg and Bucerius (2006, 347–349) observe that the benefits and detriments of the speed of integration depend on the extent of internal and external relatedness between the integrating companies prior the acquisition. Internal relatedness refers to merging companies’ strategy and organizational cultures, whereas external relatedness refers to companies’ target markets and their market positioning within these markets. As a consequence of different levels of internal and external relatedness, the relationship between integration speed and integration success will be different. Thus, in the case where the two companies are externally deeply related but internally weakly related, the overall effect of speed on the integration success is strongly negative, whereas in the case of opposite situation the effects of quick speed are considered to be strongly positive for the integration success.

Schweiger (2002, 163) observes that speed of integration is a complex, in which some facets of the integration may be best suited for slow speed while others best suited for fast. Furthermore, Schweiger and Lippert (2005, 39) indicate that fully integrating organizations, in many areas such as cultures, can take anywhere from one to five years, depending upon the relative size of the target and the extent of the integration.

3.3 Integration project management

A critical issue in post-acquisition integration is how to speed up the process of getting hundreds of people to cooperate toward common goals when the values and mind-sets of combining organizations differ, and sometimes quite radically. It is fundamental to get people from different cultures with different management philosophies to work together in order to achieve planned synergies. (Daniel 1999, 24.) According to Koch (2002, 285), a dedicated,
independent project management team should be assigned for projects where high value-creation is combined with a major change.

While there can be no universal approach to managing the post-acquisition integration a three-layer structure has proved sufficient for smaller companies with a limited number of product groups and personnel the case of a smaller integration project with three-layer structure, the project organization should consist of an overseeing executive steering committee, an integration management office to manage the project and integration project teams which are responsible for the integration of business functions and work out the specific actions to be taken. (Koch 2002, 285–287; Pribilla 2002, 328–329.)

3.3.1 Role of the integration leader

Teerikangas (2008, 83) observes that the integration leader has a key role in the integration process, and according to Daniel (1999, 25), leader of the integration team is not only the on-site contact for the transition process but also the primary liaison between the two companies with central oversight, coordination, and control of the individual integration project teams. Teerikangas (2008, 83–84) indicates that it is advisable for the integration leader to be involved in the acquisition process early on and therefore is able to be in charge of both the due diligence phase and the integration planning process. Moreover, Schweiger (2002, 145) observes that the integration leader should oversee the acquisition from the transaction stage through the integration stage to ensure continuity of information and direction. Without genuine involvement of the integration leaders, other employees are likely to refrain from fully engaging themselves in necessary integration activities, and thus maintaining barriers between the integration teams (Scalabre 2005, 81). Moreover, it is essential that the integration leader needs to be a representative of the acquiring side with extensive work history in the company which ensures that the integration leader is fully aware of the parent company’s ways of doing business and both the formal and informal expectations for the acquisition (Ashkenas and Francis 2000, 114).

Teerikangas (2008, 84–86) defines three major roles for the integration leader: supporting the post-acquisition change process, promoting the cultural change, and enhancing the transmission of information between the acquirer and the acquired company. Moreover, integration leader also needs to motivate and involve people not only by working through established channels of authority but also by inspiring people to become committed to the new organization (Ashkenas & Francis 2000, 112–115). Teerikangas (2008, 86–87) observes that successful integration leaders share some key characteristics:
leadership skills, professionalism and both international experience and multiculturalism which become significant especially in cross-border acquisitions where the leader might end up being an interpreter in cultural and language issues during the integration process.

Vester (2002, 37) draws attention to the fact that overall integration manager cannot personally attend to all the major issues that surface often simultaneously in an integration. Much of the hidden success of a post-acquisition integration lies in working with a sufficient number of experienced integration professionals who really know not only how to manage integration teams and apply best practices but also how to filter data and to prioritize both issues and requests. The integration leader needs not only to put this structure on place but also to coordinate and manage it on ongoing basis (Ashkenas and Francis 2000, 112–115). In the following chapter the assembling and role of the functional integration project teams will be discussed.

3.3.2 Functional integration project teams

According to Koch (2002, 286–288), the individual integration project teams are the “cells of the acquisition” and great demands are placed on them while their members have to handle their day-to-day work as well as their integration activities. Buono and Bowditch (2003, 213) indicate that it is important to involve as many people as feasible as early as possible in the integration process. Consequently, Scalabre (2005, 79) suggests that the overlap between the due diligence team and the integration management teams should be extensive.

Pribilla (2002, 329) demonstrates that the usage of employees from both organizations reduces the “us vs. them” attitudes, enables the utilization of acquired company’s know-how and shows consideration for the acquired company. The more managers and employees of the acquirer and the acquisition jointly gather project experience, the faster mutual trust will develop and barriers between organizations will decrease. Goulet and Schweiger (2006, 414) verify this by stating that usage of in-house integration teams consisting of managers from both companies who work together on integration of organization and processes, is considered to be beneficial to the successful integration outcome. Schweiger (2002, 153) suggests that involving the personnel of the target company is critical not only due to their relevant knowledge about the target’s situation and best practices, but also because their involvement may be critical for both gaining acceptance and commitment in the acquired organization to the change process as a whole. The more the
acquired personnel participate in the integration processes the stronger their commitment to new parent company will get (Teerikangas 2008, 89).

In addition to utilizing the know-how of the acquired company’s personnel, Teerikangas (2008, 87–88) draws attention to importance of local competence of the acquiring company in integration project management. If the acquirer already has established activities in the country, where the acquisition takes place, it is strongly advisable to utilize this country specific experience in the integration process. By appointing local managers and employees to integration project teams is an efficient way to reduce national cultural distance between the companies and to decrease the amount of cultural clashes between the employees of the companies. Local managers are aware of the ways to approach the acquired personnel in appropriate way since they know the local rules of behavior.

### 3.3.3 Preparation and on-board team building

Cartwright and McCarthy (2005, 263–264) draw attention to the fact that no matter how well the cultural differences are taken into consideration in integration planning, its use could be limited by the abilities and competencies of those required to act on the information and sensitively manage the integration. Therefore, in the context of cross-border M&A, managers need to have heightened awareness of the impact of their managerial style on others and the limitations of their own cultural patterns as they affect the way in which members of that culture interpret what goes around them. Therefore, intercultural awareness and communication training may be necessary to prepare acquiring side’s managers for interacting with the members of the acquired organization who do not share the same culture.

Cartwright and Cooper (1992, 122) observe that an essential pre-condition for successful organizational integration is integration management’s sensitive understanding and appreciation of the cultural values and beliefs prevailing throughout the acquired organization. Stahl and Sitkin (2005, 91) verify this by indicating that cultural sensitivity, defined as a firm’s capability to deal with sympathetically with cultural differences, can enhance partner trust and increase the likelihood of successful strategic integration. Intercultural sensitivity training for the integration project management team improves their cultural sensitivity by increasing not only knowledge and appreciation about the country and culture of the other company but also awareness of the norms and behaviors needed to be successful in the challenging integration period. Training also develops cross-cultural skills by increasing not only
communication and negotiation skills but also management and leadership skills in the foreign business environment (Schweiger 2002, 149.)

In post-acquisition phase the establishment of joint working parties or inter-organizational team-building initiatives between the integration teams from both sides is seen as beneficial for the integration process (Cartwright & Cooper 1992, 110). To ensure effective teamwork during the post-acquisition integration, it is important to dedicate time and attention in an early stage to the formation and development of the teams (Schweiger 2002, 149–150). Furthermore, Marks and Mirvis (2000, 42–44) observe that both structured and unstructured team-building activities are considered to aid in developing relationships among combining managers. Such social events have a legitimate role to play both in developing cooperation between the integration teams and laying foundation for the future integration (Cartwright & Cooper 1992, 117). While the managers of both sides become more alike in their understanding of both the competencies each has to offer and the need to work and depend on one another, they can begin to collaborate and address problems in a meaningful way (Buono and Bowditch 2003, 218). Schweiger (2002, 149–150) continues that building partnerships and meaningful cooperation among the integration project teams is proved to facilitate the effective and smooth post-acquisition integration.

3.4 Managing cultural challenges in a cross-border acquisition

Challenges arising from cultural differences can be managed and controlled by various ways to ensure successful integration process and based on the former literature discussed above an operational model for the study was formulated.
Depending on the degree of cultural differences the acquiring company needs both to decide the correct level of integration and to set suitable pace for the integration activities. Both the selected integration approach and the speed of integration activities have significant effect on the intensity of change resistance within the acquired organization. In addition to resistance on change correct integration speed ensures that enough time is being dedicated for communication during the process. The acquiring company needs to set up an integration project management team with correct structure and with appropriate managers. The selected managers within the integration project management needs to be experienced managers who has the understanding of and the experience in post-acquisition integration processes and in working with people from different cultural backgrounds. Cross-cultural training and team building activities are emphasized in ensuring effective cooperation and communication among the integration teams.

With the help of the operational model based on the theoretical discussion, the research findings of this study can be scrutinized and therefore the functionality of the model is able to be tested.
4 The main findings

The findings of the empirical research on the case company’s post-acquisition integration process were studied from three main perspectives: the integration approach applied by the acquiring organization, the pace of integration actions taken and the assembling and the preparation of the integration project management. Within these categories various issues were scrutinized and the discussion on the research findings suggest that the acquiring Corporation X has taken the cultural challenges in consideration while planning and executing the post-acquisition integration process. During the empirical research process not only key success factors but also key challenges were identified and are being discussed below together with the research findings.

The acquisition of Company Y was considered as a unique case for which the Corporation X decided to follow sensitive post-acquisition integration approach to tackle challenges arising from the vast differences between the combined organizations. A sensitive integration approach was applied not only by retaining the acquired Company Y’s senior management and by determining the correct level of integration based on the business needs and the local market characteristics for each function but also by evaluating best practices of both companies and by involving the Company Y representatives in the functional integration planning. The sensitive integration approach resulted in low level of resistance to change within the acquired organization which was overcome with open communication and with the support of the Company Y’s senior management. Nevertheless, some implications for discontent with some of the implemented changes were still observed.

Instead of applying quick and aggressive pace of integration the Corporation X devoted a period of six months for the initial post-acquisition integration during of which the acquired company was integrated into the acquired company. The integration period was significantly longer compared to the integration approaches applied by the acquiring company in its past acquisitions in which the integration process has been carried out in two to three months. Moreover, due to local legislation and authority procedures the acquiring company had additional two and half months between signing the deal and making it official which provided the integration project management with additional time both for careful planning and for evaluating potential challenges before the actual post-acquisition integration process started.

While the acquiring Corporation X evaluated the correct level of integration for each function separately the suitable pace of integration were also set for each function individually based on the business needs of the acquisition. For the business functions such as sales and marketing where the local market environment and therefore cultural issues were in the center of the business
needs, the integration process was stretched out for period of several years whereas the administrative functions were integrated during the initial integration period. Throughout the process the integration teams were provided with lot of time for the communications due to the language barrier between the two organizations. However, despite the slower integration speed, some of the functional team leaders of the Company Y perceived the pace to be too quick.

Due to the high status of the Finnish business integration leader (X) within the Corporation X, he had the authority to make vast majority of the integration related decisions which enabled quick decision making and issue solving. By appointing the Singaporean Chinese senior manager for a second integration leader (X), the acquiring organization was able to lower the language and cultural barrier between the two integration teams which was identified as extremely important for the success of the integration process. By selecting highly experienced functional managers the Corporation X ensured that the integration project management had the understanding and the competence to make integration related decisions. Moreover, by appointing as many Chinese managers (X) as possible the acquirer was able both to mitigate the effect of the cultural differences and to ensure effective communication between the two integration teams. Thus, within the Chinese speaking functions deeper cooperation and better communication were observed.

Vast majority of the members of the integration project management got involved in early phase of the integration which enabled them to take part in the integration planning. Corporate X addressed the issue of cultural differences early-on, and the challenges they may cause were discussed prior the integration. Moreover, the Chinese cultural training was perceived as helpful for the daily integration work by the respondents who took part in it in the acquiring organization. Team-building activities were not only seen as extremely supportive for effective cooperation but also for open communication throughout the process. The main research findings are presented on the table below.
<table>
<thead>
<tr>
<th>Post-acquisition Integration Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Sensitive integration approach by respecting acquired company’s processes</td>
</tr>
<tr>
<td>- Retaining the acquired senior management</td>
</tr>
<tr>
<td>- Best practices from both companies applied while planning the functional integration</td>
</tr>
<tr>
<td>- Positive effect on minimizing resistance to change and cultural clashes in the <em>Company Y</em></td>
</tr>
<tr>
<td>- Varying level of functional integration: strong in admin functions / moderate in business functions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Speed of Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Period of 6 months reserved for the integration overall</td>
</tr>
<tr>
<td>- Additional 2.5 months pre-integration period available for planning and for indentifying cultural challenges</td>
</tr>
<tr>
<td>- Lots of time spend for communications and for translation</td>
</tr>
<tr>
<td>- Varying integration pace for individual functions: quick for admin functions / more relaxing for business functions</td>
</tr>
<tr>
<td>- Different perceptions of speed. <em>Company Y</em>: extremely quick, <em>Corporation X</em>: suitable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Integration Management</th>
</tr>
</thead>
</table>

**Integration leaders:**
- Highly authorized business integration leader (*X*). Present on-site 2/3 of the integration period.  
  ➔ Enabled efficient decision making and on-site issue solving
- Appointment of Singaporean Chinese as another integration leader (*X*)  
  ➔ Language capability both in English and Chinese, cultural bridge builder between the integration teams

**Functional working teams:**
- Highly experienced functional team leaders (*X*) both in functional expertise and in M&A
- Appointment of local Chinese managers (*X*) as far as possible
- More efficient communication and cooperation within the Chinese speaking functions
- Local managers were more available for the integration related tasks compared to the others

**Preparation and On-board team building:**
- Majority of the integration project management involved in the due diligence – phase
- Importance of cultural differences emphasized in pre-integration phase
- Chinese culture training and language studies
- On-board team building beneficial for efficient cooperation and a signal of cultural sensitivity of the acquirer
Respondents on both sides had a shared opinion on various key challenges and success factors but differences between the two integration teams were identified. Both the integration teams identified the language barrier as a key challenge for the integration. Also too much formality in the communication was observed by the Chinese team members on both integration teams. Decision approval processes were also identified as a challenge by the members of both teams. Especially the acquired managers perceived the decision-making processes of the acquiring organization to be too slow and rigid. Some of Corporate X respondents found it challenging to find enough time for the integration activities and some functional team leaders of Company Y found the integration speed to be quick and workload overwhelming. Key success factors that were identified by both teams were the patience and understanding of the cultural differences on both sides and the on-board team building activities. The key challenges and success factors are illustrated on the table below.

### Table 2  The key challenges and success factors of the integration process

<table>
<thead>
<tr>
<th>Key Challenges</th>
<th>Key Success Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporation X respondents:</strong></td>
<td><strong>Corporation X respondents:</strong></td>
</tr>
<tr>
<td>Language barrier and communication</td>
<td>Highly experienced integration team</td>
</tr>
<tr>
<td>Cultural differences</td>
<td>Sensitive integration approach</td>
</tr>
<tr>
<td>Decision making</td>
<td>Effective communication within the Chinese speaking functions</td>
</tr>
<tr>
<td>Challenge of “wearing two hats”</td>
<td>High motivation level within the Company Y</td>
</tr>
<tr>
<td><strong>Company Y respondents:</strong></td>
<td><strong>Company Y respondents:</strong></td>
</tr>
<tr>
<td>Language barrier</td>
<td>Support of Company Y senior management</td>
</tr>
<tr>
<td>Difference in ways of communication</td>
<td>On-board team building</td>
</tr>
<tr>
<td>Complicated decision making processes of the Corporation X</td>
<td><strong>Company Y respondents:</strong></td>
</tr>
<tr>
<td>Work overload and integration speed in the beginning</td>
<td>Open-minded Corporation X’s integration team</td>
</tr>
<tr>
<td></td>
<td>Patience and understanding of the cultural differences</td>
</tr>
<tr>
<td></td>
<td>Feeling of being part of a new family</td>
</tr>
<tr>
<td></td>
<td>Authorization based on trust</td>
</tr>
<tr>
<td></td>
<td>On-board team building</td>
</tr>
</tbody>
</table>

On the following chapter the research findings will be further concluded in relation to the former literature and research on the subject. Furthermore, managerial implications will also be introduced and discussed in order to offer solutions and guidelines for companies planning post-acquisition integration processes in China.
5 Conclusions

The following chapter concludes the empirical research findings together with the earlier literature and the operational model introduced above. To begin with, the theoretical discussion introduces the theoretical contribution of the study regarding the ways to manage cultural challenges in post-acquisition integration in a cross-cultural setting. In addition to theoretical discussion managerial implications of the research are presented. With the help of the managerial implications the case company and others like it can improve their post-acquisition integration processes in their future acquisitions in China.

5.1 Theoretical discussion

The theoretical framework of this paper comprises of three main categories: the post-acquisition integration approach, the speed of integration and the integration project management. The third category is further divided into three sub-divisions: the role of the integration leader, the functional working groups, and their preparation for the integration. The theoretical implications of the research are discussed in the following.

In the researched post-acquisition integration it can be observed that a rather moderate level of integration was applied which is in line with the argument that when there is a large cultural gap between the combined organizations, the acquiring company should strive for a less intensive form of integration. Despite the acquired unit being a successful business and the deal being closed in a friendly manner, the hands-off integration approach (cf. Vaara 1995) was not an option due to the strategic importance of the acquisition. Thus, the researched integration was to a great extent in line with the co-competence approach (cf. Larsson 2005) where best practices are looked for in both organizations while defining the suitable level of integration. Furthermore, the acquired organization’s senior managers were involved in the integration planning and execution which enabled an efficient process of mapping out the best practices of the Company Y.

As a result of the co-competence approach, the level of integration varied between different functions depending on various issues. Moreover, the reasoning behind the appropriate level integration was not only based on consideration of cultural differences but naturally also on the business requirements of the acquiring corporation. As the Corporation X has extremely strong administrative functions which are operated globally in a uniform manner throughout its all subsidiaries, it was justified that they were totally integrated into the practices of the acquiring company in a rather
straightforward manner. However, for the administrative function of HR, a more gradual integration approach was applied due to the cultural implications of integrating the processes which have a significant human factor involved.

Whereas the administrative functions were deeply integrated into the functions of Corporation X, for the business functions a less intensive level of integration was employed. This is logical in the functions of sales and marketing where the importance of contact with the customers is imperative, and where the Company Y is more familiar with the ways of doing business in the local market. By employing a less extensive integration approach for these functions, the Corporation X obviously aimed not to disturb the markets, but to focus on finding the right integration approach to achieve growth. However, it is obvious that this will not be the case forever and further integration will be employed in the functions of sales and marketing in upcoming years. Furthermore, the varying level of functional integration did not seem to have an effect either on the amount of change resistance or cultural clashes during the process itself.

Of the four basic predispositions to cross-cultural management and organization (cf. Heenan & Perlmutter 1979) by retaining the acquired senior management the Corporation X followed mainly the polycentric approach where MNC decentralizes its subsidiaries’ management and culture to follow their host-culture patterns of organization and management. Furthermore, while the acquisition was not a hostile one, the acquired company was a small family owned company and its top management was both willing and enthusiastic to become part of the multinational corporation, keeping the top executives in place was considered to both prevent creating chaos within the acquired organization and to be a positive driving force for organizational change in the acquiring company (cf. Teerikangas 2008, Lees 2003). Retaining the top management was extremely important for tackling resistance to change and therefore enabling smooth integration in this case, where immense national culture distance between the Corporation X and Company Y was evident. However, while Corporation X appointed three senior level managers (a Singaporean Chinese, an ethnic Chinese and a Finn) from their own organization to work as bridge builders in the Company Y, the responsibilities within the acquired organization were reorganized and the subsidiary control obtained also some regiocentric and ethnocentric characteristics.

In addition to the changes in functional processes and procedures, the changes in managerial responsibilities naturally resulted in some resistance to change within the acquired organization, and the acquired managers were not pleased with all of the implemented changes. However, by retaining the acquired senior management and by applying the co-competence integration
approach, the *Corporation X* did not impose its organization culture on the *Company Y*, and therefore was successfully able to both keep the resistance to change to a minimum, and to work through any challenges caused by the cultural clashes during the integration process. However, it is essential to keep in mind that due to their cultural characteristics the respondents of the acquired company might not have revealed their true opinion about the post-acquisition changes either during the integration process or during the research interviews.

As pointed out above the level of integration in the immediate post-acquisition integration cannot be identified as extremely deep, but there are factors which suggest that the integration will deepen in the future. In the researched case of post-acquisition integration it is still too early to analyze the final level of cultural integration, but the strong integration of the administrative functions such as HR and the transfer of three bridge building senior managers from *Corporation X* to *Company Y* indicate that the level of cultural integration will intensify during upcoming years. However, due to characteristics of the Chinese market environment the universal integration approach will not prevail and some degree of pluralism will most likely remain between the organization cultures of the two companies (cf. Schreyögg 2005).

Another way that *Corporation X* mitigated the cultural challenges of the post-acquisition integration was the adapted pace of integration. Compared to the speed of integration in their previous acquisition in the US, the acquired company dedicated six months for the integration activities instead of applying the widely recommended 100-days approach (cf. Stahl & Sitkin 2005). Slow speed is believed to be beneficial for careful assessments of how the two organizations should be combined. In addition to careful integration planning, the additional two and a half month’s pre-integration period enabled careful evaluation of potential challenges arising from the cultural differences during the integration.

Slow integration process is also argued to be appropriate to minimize conflicts between the integrating companies. On the contrary it is also argued that quick integration speed is an effective way to solve the issue of cultural differences (cf. Olie 1994, Biljasma-Frakema 2004). However, the experienced functional team leaders of the *Corporation X* perceived the more relaxed pace to be quick, yet suitable for the researched case where both the cultural differences were vast and the language barrier between the two companies high. Moreover, the slow speed was a suitable match with the sensitive integration approach. Therefore, the slower speed enabled more time for open communication within the integration project management which was seen as extremely important in clearing out misunderstandings sourcing from the
cultural differences between the managers. Again, additional time was able to be committed to the process of explaining the reasoning behind the changes which enabled the integration teams to work through the resistance to change. However, despite the more relaxed integration pace, a couple of the acquired managers perceived the speed as extremely quick especially at beginning of the process. It is argued that the quicker speed reduces uncertainty and mitigates some of the build-up of resistance to change especially during the immediate post deal weeks when the personnel of the acquired organization expects the change to take place (cf. Teerikangas 2006). However, based on the research it cannot be argued with absolute certainty that the slower speed resulted in a lower level of change resistance, but it certainly enabled more time to be committed for open communication and for the unlocking of the cultural misunderstandings which would have potentially otherwise resulted in severe cultural clashes.

While evaluating the integration speed’s influence on the integration success as an individual factor it is argued that the correct pace of integration activities should be determined based on the external (e.g. market positioning) and internal (e.g. organizational culture) relatedness of the integrating companies (cf. Homburg & Bucerius 2006). In this case, the integrating companies’ are not only externally but also internally weakly related. Therefore, it can be argued that the speed of integration has both strong beneficial and detrimental effects on the integration success, and that the speed seems not to be decisive for the outcome of the integration. However, in the case the slower speed seemed to have only positive effects on the outcome of the initial post-acquisition integration process. This enabled both consideration on the appropriate level of integration and the robust communications during the process. Therefore, it can be concluded that the slower speed was a decisive factor for the integration success.

In the case of the integration process of Corporation X and Company Y, the cultural issues were given special attention while planning the structure of the project integration management in order to tackle challenges arising from the cultural differences. In this case a three-layer project integration management was implemented which is to some extent in line with the suggested structure for this size of acquisition (cf. Koch 2002). However, one significant difference between the suggested structure and the one that was implemented in the researched case was identified. By appointing a Singaporean Chinese senior level executive as a second integration leader of the Corporation X integration team, the acquiring company brought the language capability and understanding of local culture to the level of the integration leaders. Of the three major roles of integration leaders (cf. Teerikangas 2008) the Finnish business integration leader (X) both supported the post-acquisition change
process and maintained the information flow during the process, whereas the Singaporean Chinese integration leader (X) had the role of an interpreter of the national cultural issues, the role of which is emphasized in the cross-border acquisitions where the integration leader is required to have multicultural competences.

In addition to the integration leaders the cultural issues are given attention while selecting the Corporation X’s functional team leaders. Cultural challenges were mitigated by appointing local Chinese senior managers to lead the functional integration for the core functions of IT, Finance and HR. In these functions there was the most potential for cultural clashes due to the great number of changes. Therefore it was crucial to appoint highly experienced local managers for these functions, and to ensure both cultural understanding and effective communication, allowing smooth cooperation between the counterparts. Utilizing local integration managers with country specific experience is indicated to be highly recommendable in cross-border acquisitions as a way to reduce national cultural distance and decrease the amount of cultural clashes (cf. Teerikangas 2008). Thus, within the Chinese speaking functions due to a common language and shared cultural background the quality of communication was better and cooperation was based more on mutual respect and friendship than in the other functions. Therefore, it can be concluded that appointing local managers of the target country as far as possible is advisable in cross-border acquisitions.

Cross-cultural training is a recommended way to increase cultural sensitivity and awareness of local norms and behaviors of the acquiring company’s managers involved in the cross-border acquisition (cf. Cartwright & McCarthy 2005). For the non-local members of the integration project management who had a direct counterpart within the acquired organization, the training on the Chinese culture was seen as valuable part of the integration preparation. Furthermore, the on-board team building activities organized before the integration process were perceived as extremely important for tackling cultural challenges and therefore ensuring integration success. Team building activities are considered as means to help the counterparts to understand each other’s behavior which enables collaboration and issue addressing in a meaningful way (cf. Schweiger 2002, Marks & Mirvis 2002). Thus, as the integration leaders and the functional team leaders got to know their counterparts and develop personal relationships to the extent that they were able cooperate and communicate in a more open way during the integration. While these activities also made the acquired integration team to feel welcome to a new family which resulted in an increased level of motivation and enthusiasm, it can be concluded that the on-board team building was an essential factor breaking down the cultural barriers in between
the integration teams. A model of managing the cultural challenges in the researched integration of a cross-border acquisition is presented on the figure below.

Figure 2   Model of managing the cultural challenges in the case post-acquisition integration

In the model presented above the theoretical framework and the research results are combined to illustrate the ways the acquiring company has managed the cultural challenges in the researched successful post-acquisition integration. However, it needs to be kept in mind that despite the initial integration process being considered to be a success, some issues and challenges still remain and the final outcome of the integration and captured synergies of the integration process cannot be evaluated until few years time.
The managerial implications of the researched post-acquisition integration will be discussed on the following chapter.

5.2 Managerial implications

The researched case indicates several factors that the managers are required to take into consideration when planning and executing the post-acquisition integration under cross-cultural circumstances. First of all, each acquisition needs to be evaluated as a unique case and the appropriate level of integration needs to be assessed not only based on the business needs of the acquisition but also on the cultural differences between the two organizations. Therefore, in cross-border acquisitions the appropriate level of integration is not a simple task to define and it should be assessed for each function separately. Naturally in horizontal acquisitions with incorporated companies salient administrative functions need a more intensive approach due to control requirements and legislation. However, it seems to be crucial to implement more careful integration approach for functions which are either in direct or close contact with the local customer interface and which therefore requires cultural considerations of the local market place.

When there are vast cultural differences between the two companies, it seems beneficial for a smooth integration process and for the integration outcome that the acquiring company strives for a less intensive speed of integration. This is evident especially in a case where a more sensitive integration approach is applied, and there is no need for aggressive change of course in the acquired unit. However, as the number of changes varies among the functions, the speed of changes varies at the same time. In order to decrease the anxiety and workload of the acquired managers responsible for the functions which are integrated at a quicker pace, it would be advisable to dedicate more resources for these functions which would allow more time for open communication and for the reasoning for the changes.

Although, whatever the selected level of integration or the pace of the integration activities taken, the main issue in post-acquisition phase is the process of how the integration process is being managed. In the acquisition of a small family owned Chinese firm which is accustomed to quick decision making it seems to be imperative that the business integration leader of the acquiring company needs to be an experienced professional, highly authorized and present on-site the majority of the time to ensure quick decision making during the integration process. Yet, despite the business integration leader possessing all such characteristics, the Chinese respondents perceived the decision making still too slow and therefore more emphasis should be given
on enhanced decision approval processes during the integration process. Moreover, in the post-integration phase a correct mix of the decision making processes of the two companies needs to be found and applied for the acquired company to ensure future success of the new organization.

In the case where vast cultural differences and high language barriers between the integrating firms are evident, and if the responsible business integration leader does not speak the local language of the target company or have considerable understanding of the local culture, it is beneficial for the integration success that the acquiring company appoints another integration leader who possesses these capabilities and skills. However, not only the clarity of the roles of the two leaders needs to be established but also the involvement of both of the leaders in the process as early as possible should be ensured.

While integrating acquisitions in China, a great deal of attention needs to be given to the communication channels. In the researched case too much formality in the communication between the business integration leader (X) and the acquired company’s integration team was not considered to be beneficial for the information flow during the process. The Chinese prefer the face-to-face interaction and informal ways of communication instead of formal teleconferences or emails. Therefore, it can be suggested that great deal of informality needs to be considered in the communications with the acquired managers when integrating acquisitions in China. Moreover, face-to-face meetings would have improved the awareness of the acquired side’s managers who were now highly dependent on their counterparts for information extraction due to the language barrier which prevented them from taking part in the weekly teleconference meetings. Therefore, it would be recommended to relocate the acquiring side’s integration team as a whole temporarily in the target country which would make them more available for the integration related activities. On the other hand it would be challenging for them to attend to their normal daily responsibilities in the home office.

In addition to the cultural understanding on the level of the integration leaders, the utilization of host country managers in the acquirer’s integration teams seems to be highly beneficial for the integration outcome. However, it is essential to take into account that the cultural background is not the only factor which should be considered while appointing managers to lead integrations both on the overall and on the functional level. Naturally, the selection of suitable candidates should start with professional and managerial experience in one’s field of expertise. Nevertheless, utilizing as much of local expertise of the target country as possible is a recommended method to tackle cultural challenges when executing post-acquisition integration under cross-cultural circumstances.
Before the actual integration process starts in which efficient collaboration between the members of the integration project management are called for it seems advisable to put the members of the integration teams together in pre-integration team-building activities. In addition to team building the cultural training of the acquiring company’s non-local integration management is also recommendable and seen as beneficial for the understanding of the behavior of the counterparts in the acquired organization which enables enhanced cooperation during the integration process. However, the two-day session organized by the acquiring organizations was not sufficient and more emphasis should be given for the cross-cultural training.

To conclude, the cultural challenges in a cross-border acquisition are a critical factor that needs to be emphasized in post-acquisition integration. The cultural differences such as communication and decision making processes that were perceived as a challenge for the integration process were similar with the cultural challenges identified in the earlier research on Finnish-Sino business partnerships. For the purpose of mapping out cultural challenges this analysis is not completely comprehensive, while other cultural factors remain that may have impact on the post-acquisition integration process and its outcome. However, the study offers significant managerial tools for managing the integration challenges arising from the cultural differences between the two companies involved, which enables the case company and other companies like it to improve both its integration management processes, and the integration guidelines for their future M&A activities in China.

References


Cartwright, Susan – McCarthy, Simon (2005) Developing framework for cultural due diligence in mergers and acquisitions: issues and ideas. In: Mergers and Acquisitions: Managing Culture and


TURUN KAUPPAKORKEAKOULUN JULKAISSUSARJASSA
KESKUSTELUJA JA RAPORTTEJA OVAT VUODESTA 2008 LÄHTIEN
ILMESTYNEET SEURAAVAT JULK AISUT

KR-1:2008  Heli Marjanen (toim.)
Lisää leipää – turkulaisia näkemyksiä leivän ostamisesta ja
kulutuksesta
KR-2:2008  Maria Halme
Joulurauhaa maailman turuilla ja toreilla? Turku Suomen
Joulukaupunki -hankkeen vaikutusten muutokset erityisesti
matkailun kannalta vuosien 2004 ja 2007 välisenä aikana Turun
keskustan yrittäjien näkökulmasta
KR-3:2008  Outi Sarpila
Viideltä saunaan ja kuudelta kuorintaan? Miesten ulkonäöstä
huolehtiminen ja ulkonäköön kuluttaminen 2000-luvun
Suomessa
KR-4:2008  Timo Toivonen – Maria Halme (toim.)
Kulttuurin, luonnon ja liiketoiminnan näkökulmia matkailuun

KR-1:2009  Piia Mustonen
Social media – a new way to success?

KR-1:2010  Niina Nummela & Mélanie Raukko (eds.)
Managing cross-border acquisitions

Kaikkia edellä mainittuja sekä muita Turun kauppakorkeakoulun
julkaisusarjoissa ilmestyneitä julkaisuja voi tilata osoitteella:

KY-Dealing Oy
Rehtorinpellonkatu 3
20500 Turku
Puh. (02) 333 9422
E-mail: ky-dealing@tse.fi
All the publications can be ordered from

KY-Dealing Oy
Rehtorinpellonkatu 3
20500 Turku, Finland
Phone +358-2-333 9422
E-mail: ky-dealing@tse.fi