INTERNATIONAL MERGERS AND ACQUISITIONS: DIAGNOSIS AND MANAGEMENT OF CULTURAL DIFFERENCES IN POST-MERGER INTEGRATION

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ABSTRACT

Mergers and acquisitions have been a key strategy for international expansion in the corporate 1990s. However, since the beginning of the new millennium, multinational organizations rather focus on integrating their merged or acquired companies. Many of these international post-merger integration processes have yet not worked out as smoothly as their initiators have expected. A study among German, US-American, and Japanese co-workers found that differences between national cultures can explain the occurrence of problems in international post-merger integration. This article argues that a thorough diagnosis of differences between national cultures can improve post-merger integration success. Equally, this research demonstrates the need to develop and implement measures for overcoming culture-bound problems.

KEY WORDS:

international mergers and acquisitions, post-merger integration, national culture, intercultural management, global strategy, cross-cultural behavior introduction

Introduction

The 1990s were a “merger decade”. Never before did as many organizations merge or acquire other organizations, and above all, on a global basis. Cross-border mergers and acquisitions have become a major strategic tool for growth of multinational companies (Cartwright and Cooper 1993). The number of cross-border deals increased spectacularly from approximately 2,500 in 1990 to about 6,500 in 2000 as a result of globalization and increasing competition, just to name two reasons (OECD 2001). Since 2000, however, the picture has changed dramatically. Because of weak capital markets, a tight lending environment, and slowing economies all over the world, post-merger organizations focus on integrating their businesses rather than further expanding them through M&A. Enterprise integration has become a top priority of organizations in the 2000s.

Unfortunately, those integration efforts frequently are not fruitful. Several studies point to failure rates of 50 percent and more (Ravenscraft and Scherer 1987, Bekier, Bogardus, and Oldham 2001, Adolph et al. 2001). Although there are literally hundreds of reasons why the failure rates are so high, many can be traced back to cultural differences. A.T. Kearney found that there is an explicit relationship between cultural barriers and the success of international mergers (Augustine 1999). Other researchers state that the underestimation of differences between national cultures is among the most frequent mistakes of international mergers and acquisitions’ management (Cahill 1996, Vestring, King, and Rouse 2003, Weber and Camerer 2003). Consequently, the failure rates are exceptionally high in cross-border mergers where differences between national cultures play an essential role (Cartwright 1998).

If differences between national cultures are among the main reasons for problems in international mergers and acquisitions, what can be done to deal with those problems? Firstly, there is a need to diagnose differences between national cultures. To do so, an empirical study was applied in which cultural differences among German, US-American, and Japanese co-
workers were diagnosed. The purpose of this study was to find out in which ways different cultural values and attitudes are effecting post-merger organizations in their integration phase. Secondly, management should implement measures for overcoming culture-bound problems during the post-merger phase. Hence, based on the survey's result, the paper introduces skills and methods, which might promote a smoother and more efficient integration process in future international mergers and acquisitions.

The article is structured in the following manner: After an introductory outline of the terminology regarding national culture, we introduce relevant cultural dimensions and problem areas of international post-merger integration. We go on to describe the methodology and empirical model designed to test the central hypotheses (that differences between national cultures can explain whether problems occur in international post-merger integration), and to present the results of the study. After discussing the limitations of the study, we dwell on implications for the management of cultural differences in post-merger integration. In the final section, we draw the conclusions.

**National Culture**

According to Hofstede (1997), culture is “the collective programming of the mind which distinguishes the members of one group or category of people from another”. Thus, national culture is not a characteristic of individuals; it rather encompasses an entire population who was conditioned by the same education and life experience. Accordingly, national cultural differences can be defined as the degree to which cultural characteristics in one country are different from those in another country (Kogut and Singh 1988).

Four manifestations of national culture can be distinguished: symbols, heroes, rituals, and values. Symbols include words, gestures, or objects that carry a particular meaning recognized only by those who share a culture. Heroes are persons, real or imaginary, who possess characteristics that are highly prized in a society, and, thus, serve as role models for behavior. Rituals refer to collective activities considered socially essential within a culture. At the core of a national culture are values which are defined as broad tendencies to prefer a certain state of affairs over others. People are not consciously aware of the values they hold – hence, it is difficult to discuss or observe them (DeMooji 1997).

Unraveling national culture from organizational culture is a subject which has posed a complex challenge to researchers (Tayeb 1996). Although almost inseparable, some argue that national culture is the fundament of organizational culture (Derr and Laurent 1989). Following this view, organizational culture can affect everyday behavior of employees, but it cannot change basic assumptions of the national culture which are the basis for behavioral patterns and values. Thus, organizational culture is seen as an implication of national culture.

**Diagnosis of Cultural Differences in International Post-Merger Integration**

This paper’s foundation is the assumption that differences between national cultures are a highly relevant success factor of international post-merger integration. In order to analyze the causal effects of national cultural deviations, differences have to be observed in combination with problem areas of international post-merger integration. Therefore, it was hypothesized: *Differences between national cultures can explain whether problems occur in international post-merger integration.*

If the above hypothesis is proved, an analysis of differences between national cultures should help to better understand and solve problems of international post-merger integration. Such an analysis can be conducted on the basis of distinctive cultural dimensions which can be used to measure cultural differences. Hence, the most important cultural dimensions developed by Hofstede and Bond, Trompenaars and Hampden-Turner as well as Hall will be shortly introduced.

**Cultural dimensions**
The number of relevant cultural dimensions is almost infinite due to the high complexity of national cultures (Triandis 1982). Nevertheless, several scholars attempted to create self-contained systems with dimensions that describe the most important and differentiating characters of national cultures. In his fundamental research approach, Hofstede concentrated on four basic dimensions of cultural values. These dimensions were:

- **the degree of power distance** (indicating the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally),
- **the degree of uncertainty avoidance** (indicating the extent to which a society tries to avoid uncertain situations by, for example, establishing more formal rules and believing in, and/or striving for expertise),
- **the degree of individualism** (indicating the extent to which relationships are based on loose social frameworks rather than on collectivism, where people are tightly integrated in primary groups, such as families and organizations),
- **the degree of masculinity** (indicating the extent to which dominant values or roles in society are viewed “masculine”, for example achievement, assertiveness, and performance, when measured against its opposite pole, femininity, defined as quality of life, caring for other people as well as social and gender equality) (Hofstede 1980, 1997, 2001).

Based on their research in Asia, Hofstede and Bond (1988) found a new dimension, which was added as a fifth dimension and labeled:

- **the degree of long-term orientation** (indicating the extent to which a society exhibits a pragmatic future-oriented perspective rather than a conventional, historic short-time point of view).

Similar to Hofstede, the goal of Trompenaars’ and Hampden-Turner’s approach was to pinpoint the possible existence of differences between national cultures. They built on an earlier study by Parsons and Shils (1951) and narrowed human behavior down to five dimensions:

- **the degree of universalism** (indicating how a culture evaluates the behavior of members of other cultures),
- **the degree of individualism** (which was already explained above),
- **the degree of neutrality** (indicating the intensity with which people express feelings when interacting with others),
- **the degree of specificity** (indicating the extent to which people engage others in their private spheres),
- **the degree of achievement orientation** (indicating how cultures award status) (Trompenaars and Hampden-Turner 1998, Hampden-Turner and Trompenaars 2000).

The third revisited scholar in the field of national culture differences is the anthropologist Hall. He takes four cultural dimensions into account:

- **the degree of context** (indicating that members of low-context cultures seriously depend on the external environment, the situation, and non-verbal behavior when creating and interpreting communication versus members of high-context cultures, which learn from birth to interpret the hidden clues given in these contexts when they communicate),
- **the degree of timing** (indicating the difference between monochromic cultures, which divide time linearly, and polychromic cultures, which accomplish many things at once),
- **the degree of space allocation** (indicating that different national cultures have a different relationship to space),
- **the degree of speed of message** (indicating different speeds at which information is coded and decoded in everyday communication) (Hall 1989\(^a\), 1989\(^b\), 1990\(^a\), and 1990\(^b\)).

**Problem Areas of International Post-Merger Integration**
The main goal of this paper is to link cultural differences to specific problem areas of international post-merger integration. The composition of possible problem areas of international post-merger integration was approached by a double-tracked strategy. Firstly, the available literature in the field of M&A management and post-merger integration management was studied. Secondly, exhaustive observations as well as oral interviews were used to assess the relevance of the problem areas identified in the literature. When analyzing the influence of cultures on mergers and acquisitions, Reinecke (1988) was one of the first to categorize specific areas where culture altered organizations. He lists strategy, leadership, communication, personnel management, and organizational structures as possible problem areas. Lucks and Meckl (2002) mention team orientation and payment issues as further problem areas of international post-merger integration. Similarly, Weber and Camerer (2003) point to leadership and communication problems as reasons for merger failure caused by cultural conflict. Finally, Calori, Lubatkin, and Very (1994) as well as Pitkethly, Faulkner, and Child (2000) bespeak the importance of problems relating to the acceptance of formalization and centralization after international mergers or acquisitions. Through the interviews, especially the following categories of problem areas were confirmed to be of great practical importance: content of communication, leadership style, centralization, formalization and payment. Those problem areas were applied in the research study.

RESEARCH STUDY

A lot of previous studies have touched on facets of merger failure. However none of these studies have conclusively determined the causal effect of cultural differences (Weber and Camerer 2003). While Morosini, Shane, and Singh (1998) found that national cultural differences generally have an impact on cross-border acquisition performance, they did not link specific cultural characteristics to particular problem areas of post-merger integration. This study aims to fill this gap. We intended to analyze the specific consequences of the clash of different cultures in deep detail.

The empirical study concentrates on the case where a large German company merged with an US-American and a Japanese company. This case is specifically revealing because in past studies dealing with national cultures, those three nations showed huge differences concerning various cultural dimensions (Hofstede 2001). Overall, 105 interviewees out of 212 possible participants contributed to the study, which yields to a return rate of 49.5 percent.

Cultural Differences

Firstly, cultural differences between the German, US-American, and Japanese interviewees were analyzed. Hence, the grouped medians of the three national cultures were compared dimension by dimension. This approach had three specific advantages compared to the approach of using the arithmetic mean: first, the grouped median is more robust against runaway values; second, through its robustness, the fluctuant number of questionnaires from different national cultures – more German returns than US-American and Japanese – does not cause trouble; and third, the grouped median guarantees comparability among the questions (Forstmann 1994).

For each cultural dimension, the interviewees were asked to rank a respective question from 1 (“strongly agree” / “most important”) to 7 (“strongly disagree” / “most unimportant”). Control questions assured the validity of the answers. The grouped medians for each national culture were calculated and plotted on the axes of the culture web as illustrated in Figure 1. The closer the grouped median was to 1, the more a national culture tended towards the respective cultural dimension.

Insert Figure 1 here
Interpreting the culture web clockwise, the first cultural dimension was the degree of power distance. The interviewees were asked to rank their acceptance of an autocratic leadership style as an indicator for the degree of power distance. The illustration demonstrates how the preferred leadership styles of the Japanese and the two Western cultures were opposite to each other. Most Germans and US-Americans preferred a rather cooperative leadership style, where subordinates function as their boss’ consultants (low power distance). Japanese employees, however, tended to favor the “aristocratic” boss, who makes decisions by himself and communicates them clearly and firmly, which refers to high power distance (Hofstede 2001).

The second observed cultural dimension was the degree of uncertainty avoidance. Here, the Japanese ranked higher than both Germans and US-Americans. This complies with Hofstede’s findings, which also rank the Asians before the Westerners in terms of uncertainty avoidance (Hofstede 2001).

Regarding the degree of individualism, a major difference was seen between the two Western cultures and the Japanese culture. While Germans and US-Americans enjoyed free time with family and freedom in organizing their own work, Japanese preceded the company before the family and preferred working in groups.

Referring to the degree of masculinity, all three national cultures were close together on the masculinity axes of the culture web. Germans, US-Americans and Japanese tended to prefer working in a cooperative climate – a rather feminine value.

On the axes referring to the degree of long-term orientation, Japanese, Germans, and US-Americans were close together. Although the degree of long-term orientation was especially created for Asians by Hofstede and Bond (1988), all three national cultures can be considered long-term oriented.

Regarding the degree of universalism, the Japanese and the two Western cultures were on opposite sides again. While the universalistic cultures of Germans and US-Americans saw contracts as the basis of everyday business, the particularistic Japanese culture was convinced that personal relationships and networking as well as trust and confidence would suffice.

Concerning the degree of neutrality, only small differences between the three national cultures were found. Only the German interviewees showed a tendency to being rather emotional and less neutral than their fellow interviewees from the United States and Japan.

The assessment of the degree of specificity showed that Germans and US-Americans – in comparison to Japanese – are rather specific cultures. They tended to keep the company out of their private life.

The next observed cultural value referred to the degree of achievement orientation. Germans and US-Americans tended not to care as much about expressing own thoughts at work (low degree of achievement orientation). This astonishing finding might have to do with the need to comply with superiors’ opinions. On the other hand, Japanese showed their true ascription orientation, which refers to low achievement orientation (Takeuchi 1987).

Regarding the degree of context, the assessment illustrates that Japanese were high context oriented while US-Americans – and even more so Germans – were low context oriented. In business, this orientation can be highly relevant. According to a German interviewee, communication problems occurred during negotiations with Japanese. The Japanese business partners wanted to get to know the Germans well before doing any business while the Germans eagerly waited to start the negotiations. Another German interviewee, who was commenting the context orientation of Japanese, answered that if Japanese would call a task “difficult to accomplish”, this really would mean that it could not be done at all.

Concerning the degree of timing, the Germans and US-Americans tended towards a polychromatic culture and mostly agreed upon working at two projects simultaneously instead of finishing one project after another. With regard to Germans, this result might relate to their notion of always thinking in terms of efficiency (Lewis 1999). The Japanese tended to be
monochromic, answering mostly in favor of the monochromic axes, which is similar to the results of Hall and Hall (1990).

As to the degree of spacing, no large differences between Germans, US-Americans, and Japanese were found. All three national cultures declined to be overly exaggerated when meeting a business partner; a formal greeting with handshaking was seen as adequate. Finally, the degree of speed of message in each national culture was measured. While Germans and Japanese highly valued formal etiquette by using last names and academic titles, the US-Americans tended to decline this form of contact in business situations. They rather preferred using first names quickly and did not highly value academic titles (Bloom 1988).

In conclusion, considerable differences among the three national cultures in business situations were identified. Concerning the dispersion of the answers, a relatively low dispersion within the groups was found. This refers to homogeneity of the three national cultures. Most of the findings of this study strongly comply with the research results of Hofstede, Trompenaars and Hampden-Turner, and Hall. Thus, nomological validity of this survey can be assumed.

**Dependencies among Differences between National Cultures and Perceived Problem Areas**

In a next step, dependencies among cultural differences and perceived problem areas of international post-merger integration were evaluated. In this regard, the central hypothesis stated that differences between national cultures can explain whether problems occur in international post-merger integration. If correlations were found between cultural differences and perceived problem areas, then the hypothesis would be confirmed. Consequently, each relevant problem area was correlated with the results from the culture questions as illustrated in Figure 2 (US-Americans versus Japanese were not compared because there was no direct confrontation of US-Americans and Japanese at the analyzed companies). To do so, a bivariate correlation analysis was conducted using SPSS 11, and the Pearson correlation values were produced.

With regard to the relationship of Germans and US-Americans, three correlations among differences between national cultures and problem areas of international post-merger integration were found. First, there was a weak positive correlation between high context orientation and the problem area content of communication. This means that low-on-context interviewees – the Germans – faced difficulties with the type of content they transport to people, who were higher on context – like the Japanese. Second, there was a weak positive correlation found between high individualism and the problem area payment, which points to individualistic interviewees perceiving a problem in foreign payment systems. Third, there was a weak positive correlation found between high individualism and the problem area formalization. In this regard, those interviewees, who enjoyed the freedom of organizing their own workday and work routines, perceived an upcoming formalization as problem area. This might refer to US-Americans perceiving stronger formalization when working with Germans. Regarding the relationship between Germans and Japanese, the dependencies were stronger than between Germans and US-Americans. Eight correlations were most outstanding. First, there was a strong positive correlation between high power distance and the problem area leadership style. The reason might be that Japanese interviewees – who were higher on power distance than Germans – were uncomfortable with the leadership style of their German superiors. As discussed earlier, Japanese tended to prefer a rather autocratic manager while Germans preferred a rather cooperative manager. Thus, German superiors applying a cooperative leadership style were not preferred by their Japanese subordinates. Second, a strong negative correlation was found between high collectivism and, again, the problem area leadership style. This might relate to rather collectivistic Japanese – who prefer working in...
groups – and a rather individualistic German leadership style, which stresses individual needs before group needs. Third, strong correlations were found between the degree of context and the problem area content of communication. Here, Japanese interviewees – high on context – collided with their German colleagues, who were low on context. As debated earlier, members of low-context cultures seriously depend on the external environment and the situation when creating and interpreting communication. Conversely, members of high-context cultures learn from birth to interpret the hidden clues when they communicate. Thus, an indirect style of communication is valued, as is an ability to understand it. Fourth, a strong positive correlation was found between achievement orientation and the problem area qualification. In this regard, interviewees with a high ascription orientation perceived qualification as a problem area of integration. The reason here might be the breach of the Japanese seniority principle, which promotes the older before the younger. Since the seniority principle stands in clear contrast to German principles – which generally promote by qualification and achievement – Japanese interviewees might have been the ones perceiving a problem area. Fifth and sixth, strong correlations were found between the degree of power distance as well as the degree of context and the problem area centralization. This might refer to Japanese – very power distant and high on context – versus Germans, who are less power distant and low on context. Strong correlations were also found between the degree of power distance as well as the degree of context and the problem area organizational structure. A possible explanation might be that a change in the organizational structure was perceived as a problem area by Japanese employees.

In conclusion, relationships among differences between national cultures and perceived problem areas were found between Germans and US-Americans as well as Germans and Japanese. The central results of the study can be summarized as follows:

- With the help of the questionnaire and its utilized cultural dimensions, significant cultural differences between Germans, US-Americans, and Japanese could be assessed.
- Additionally, differences between national cultures did explain whether problems occur in international post-merger integration. In this regard, the survey’s central hypothesis was supported. Concerning Germans versus US-Americans, only weak correlations between cultural differences and perceived problem areas were found, which is another striking argument for a successful transatlantic post-merger integration process. However, strong correlations were found with regard to Germans and Japanese, which points to an incomplete post-merger integration.

Thus, those problem areas of international post-merger integration, which could be explained through differences between national cultures, will be called “culture-bound problem areas” in the further analysis. Culture-bound problem appear on two different levels – the individual level and the organizational level – as illustrated in Figure 3. The individual level can be subdivided into the “interpersonal level” (including content of communication as well as qualification) and the “leadership level” (including leadership styles). The organizational level includes organizational structure and payments – those tasks, which generally occur on the administrative level of an organization. This level relates to the organizational body, which surrounds the employees.

Insert Figure 3 here

**Limitations**

The data limitations of this survey shall be distinguished in culture-free and culture-bound limits. Culture-free limitations are of a rather general nature and, thus, apply for most surveys of social empirical research. Culture-bound limitations can be explained through the assessed data of this survey.
With regard to culture-free limitations, two limits were found. The first limit was the allocation of the interviewees regarding their citizenship. More Germans than any other nationality were represented in the survey. The second limit was the allocation of the interviewees regarding their sex. Women were widely underrepresented in the survey, especially in the case of the Japanese interviewees, who were all male. Both allocations may have influenced the final outcome of the survey.

Likewise two limits were found with regard to culture-bound limitations. First, the most obvious culture-bound limitation relates to the “culture ballast”, which every researcher in the field of cross-cultural research brings into the research. For the purpose of this paper, culture ballast indicates the transfer of own, subjective values into the design of a questionnaire. Eventually, justifiable predications about cause and impact of differences between national cultures can only be made in the own surroundings of the researcher. In other cultural surroundings, those predications might be useless or would not be understood (Kutschker 2001). Here, the predictor was German. Thus, German values and attitudes might have influenced the evaluation of differences between national cultures.

Another culture-bound limitation to be assessed was the problem of “imposed ethics”. With imposed ethics, the cross-cultural researcher assumes that all value questions have the same meaning and weight in the different cultures analyzed (Smith, Dugan, and Trompenaars 1996). This method, however, is highly questionable since values often have different valence and meaning in difference cultures. The most clear-cut example is Hofstede’s uncertainty avoidance dimensions and its underlying values. In Asia, the results of the uncertainty avoidance questions never correlated with the other dimensions, which led to the creation of the long-term versus short-term dimension especially for Asians (Hofstede and Bond 1988, Hofstede 2001).

**MANAGEMENT OF CULTURAL DIFFERENCES IN POST-MERGER-INTEGRATION**

The identified culture-bound problem areas of international post-merger integration – content of communication, qualification, leadership style, organizational structures, and payment – will be the basis for the following discussion about managing national cultures in international post-merger integration. For each of these problem areas, specific approaches to manage the occurring difficulties will be presented. Analogous to several other change management efforts, there are generally two approaches to manage national cultures, as illustrated in Figure 4: starting “bottom-up” at the individual level or, respectively, “top-down” at the organizational level (Porter, Lawler, and Hackman 1975).

The bottom-up approach includes those activities employees initiate on their own accord. The opposite is true for the top-down approach where adaptations to national cultures are embraced on the organizational level and activities are initiated from the top of an organization.

**Bottom-up Adaptation**

Bottom-up adaptations take place on the individual level and can be subdivided into the interpersonal level and the leadership level. Three types of individual skills and abilities with regard to working with people from other cultural backgrounds after a merger will be introduced: The interpersonal level includes cross-cultural communication and general cross-cultural qualifications. With regard to the leadership level, cross-cultural leadership will be encapsulated.

**Cross-cultural Communication**
In the study, a connection between the context orientation of a culture and the problem area content of communication could be identified. Mainly three reasons can be made responsible for misunderstanding in cross-cultural communication: misperception, misinterpretation, and misevaluation. Perception is a selective process, where individuals screen out most of what they see, hear, taste, and feel. It is learned through experience, which teaches individuals to perceive their surroundings in certain ways. Thus, it is culturally determined (Adler 1997). One example for misperception is stereotyping, which involves a form of categorization that guides individual behavior towards ethnic and national groups. Misinterpretation, on the contrary, arises from subconscious cultural blinders such as the astonishment of Germans about the US-American open-door policy in business. It is also based on a certain lack of cultural self-awareness and projected similarities, which refers to the assumption that other people are more similar to one self than they actually are. Misevaluation is based on ethnocentrism and involves judging whether someone or something is good or bad by using one’s own national culture as standard of measurement.

There are proposals for solutions to the above examples of misunderstanding. When working in other national cultures, individuals should generally emphasize description rather than interpretation or evaluation and, therefore, minimize self-fulfilling stereotypes and premature judgment. Effective communication across cultures presupposes the interplay of alternative realities. Thus, it discards the actual and potential domination of one reality over another (Adler 1997).

**General Cross-cultural Qualifications**

The knowledge about the existence of differences in national cultures is not enough for globally acting managers. Thus, we must distinguish between two levels of general cross-cultural qualification. First, there are professional competences, including foreign language abilities and knowledge about the economical, technical, and political distinctiveness of the visited foreign country. Second, there are managers’ personal characteristics, including cognitive maneuverability, cross-cultural adaptability, impartiality, tolerance and respect, maturity, empathy, as well as cultural self-awareness (Berger 1998, Hampden-Turner and Trompenaars 2000, Mendenhall et al. 2002).

Although general cross-cultural qualifications are abilities and skills of individuals, the organization can apply measures – like cross-cultural training and team building, which will be introduced in the top-down adaptation segment of this paper – to improve those individual qualifications.

**Cross-cultural Leadership**

In the study, a linkage was found between the cultural dimensions power distance and individualism and the problem area leadership style. In the literature, a vast amount of information can be found regarding leadership and leadership styles. Most of those leadership theories have been developed in the United States. Rather than being applicable worldwide, many traditional models effectively guide thinking and action only within the US-American context for which they were developed. Thus, participative leadership approaches are not suitable for all cultures as shown by this survey’s findings. Employees in high power distance countries such as Japan expect managers to act as strong leaders. They would become uncomfortable with leaders delegating discretionary decisions. Some national cultures want their managers to act as decisive, direct experts. Others want managers to act as participative problem solvers. One of the most prominent and most popular US-American leadership styles is probably “Management by Objectives” (MbO) as stated by Drucker (1993). It reflects US-American values by assuming that subordinates are sufficiently independent to negotiate meaningfully with their superiors (medium power distance), both of them are willing to take risks (low uncertainty avoidance), and performance is seen as an important criterion by both (high masculinity) (Hofstede 2001). Conversely, in other countries, MbO works differently. For example, Germany’s higher ranking on uncertainty avoidance proposes a lesser German
willingness to accept risks when compared with US-Americans. Thus, in Germany MbO was transformed into an elaborate leadership style called “management by joint goal setting”. This leadership principle evolved out of political and societal pressure towards increasing the welfare of all people in organization and their right of participation (Giegold 1978). Another popular US-American leadership style is “management by walking around” (MbWA), which is characterized by superiors regularly walking through office buildings and shop floors to engage into small talk with their subordinates. MbWA bases on the idea of a bilateral dialogue with the superior learning about employee problems as well as subordinates learning about management’s goals (Peters 1995). While being popular in Germany and the United States, in Japan, however, applying MbWA could be a mistake.

As shown in the study, the more different domestic leadership styles are from others, the larger the problems can become in international post-merger integration. Thus, based on the cultural context of their operations, global managers must constantly evaluate and decide which leadership style to employ. Their decision must not only depend on the particular industry, organization, and individuals involved but also on the specific national culture. In moving from domestic to global management, leaders must become flexible enough to adapt to each particular situation and country, and they must develop a wider range of thinking patterns and behaviors.

**Top-down Adaptation**

Second, the top-down approach of adaptation to different national cultures will be illuminated. According to the survey’s results, organizational structures and payment supplemented with incentives were found as culture-bound problem areas of international post-merger integration. Here, the organizational level needs to be supplemented with cross-cultural training and cross-cultural team building to improve the individual general cross-cultural qualifications.

**Organizational Structures**

Organizational structures can be defined as a set of established regularities in activities such as task allocation, coordination, and supervision (Tayeb 1996). They can be distinguished in terms of their dimensions, including: centralization (the degree to which decisions are made by a small group of top managers), specialization (the degree to which functions, such as marketing, and roles, such as machine minding, are carried out by specific departments or persons), formalization (the degree to which written rules and regulations are used to regulate the organization’s activities and the employees’ job, such as job descriptions), and standardization (the degree to which standard procedures are used for certain re-occurring activities, such as quarterly purchases) as described by Pugh et al. (1968).

In order to find the ideal organizational structure for a specific national culture during the post-merger integration phase, especially the power distance and uncertainty avoidance dimensions can be employed, as emanated from this paper’s study. In terms of organizational structure, Germans relate to a well-oiled machine (formalized but not centralized) and Japanese relate to a pyramid of people (both centralized and formalized). Conversely, US-Americans rather tend to the center of the map, which explains the success of many US-American operations in very different national cultures. However, according to the common US-American conception of organization, hierarchy in terms of centralization is not a goal by itself as it might be in Japan. Also, for US-Americans, rules in terms of formalization are not a goal by themselves as they are in Germany (Hofstede 2001, Laurent 1986).

**Payment and Incentives**

Payment and incentives were also found to be a culture-bound problem area and to be correlated with the degree of individualism. In the survey, several German interviewees complained about higher fixed payments of their US-American colleagues. Beyond base salaries are incentive systems. They are used to motivate employees extrinsically – in terms of bonuses, stock options, or a company car – as well as intrinsically in terms of work content,
the ability to decision making, or continuing education, to name just a few (DeVoe and Iyengar 2004).

Payment and incentive systems, however, differ between national cultures. According to a study that correlated Hofstede’s dimensions and several compensation packages, uncertainty avoidance was positively related to pay based on seniority and skill as well as negatively related to pay based on performance. Individualism was positively related to pay for individual performance, stock options, and ownership for managers. And finally, power distance was negatively related to workplace child care for managers (Schuler 1998). Thus, payment and incentive systems should be adapted to the specific needs of a national culture. On the one hand, this might result in stronger effects on motivation. On the other hand, it can decrease cross-border comparability and result in discontent among employees.

**Cross-cultural Training**

Cross-cultural training is a key method to improve the interaction of employees from different national cultures. As stated before, international post-merger integration specifically calls for a high degree of cross-cultural understanding. Thus, cross-cultural training is a powerful organizational tool to teach employees the cross-cultural abilities and skills discussed before. Employees confronted with other national cultures should not only be taught in the foreign language but also how to achieve cross-cultural competence, which should include: cross-cultural communication, code of conduct (including, for example, different forms of greeting, gifts and bribery, drinking and dining as well as rules of punctuality), social relationships (including, for example, family and hierarchical relationships, castes and classes as well as subordination), motives and motivation (including, for example, individual and socially accepted motives and forms of motivation), and value concepts and ideologies (including evaluation of different values, behaviors, and world views). The developed tools of cross-cultural training are so manifold that only a brief overview will be given here (Hoppes and Ventura 1979, Brislin and Yoshida 1994, Fowler and Mumford 1995, Landis and Bhagat 1996, Cushner and Brislin 1997).

Cross-cultural training can be distinguished by its content and method. While cross-cultural knowledge intermediation is a rather monologue form of training, participants of cross-cultural behavior training are expected to interact in dialogues with their trainers. Those dialogues come mostly in form of experimental learning situations such as simulations and role play or even travel experiences prior to the foreign assignment. Interestingly, often the foreign assignment itself is seen as the best tool to learn cross-cultural competence. This has to do with the difficult evaluation of the above mentioned training methods. Direct immersion into the host culture without prior training, however, is not a suitable approach for better international post-merger integration. Due to the almost inevitable appearance of a culture shock, as well as the general uncertainties after a merger, a newly merged or acquired organization is the wrong place for cross-cultural training. A more successful way would be to start a solid preparation with initial cross-cultural training in the home culture, followed by continued training while already working in the host culture.

**Cross-cultural Team Building**

Cross-cultural team building after mergers and acquisitions is another ideal organizational tool to adapt to culture-bound problem areas. It is a specialized approach that helps culturally diverse work groups to achieve high productivity and cooperation. Those teams possess the breadth of resources, insights, perspectives, and experiences that facilitate the creation of new and better ideas (Schnapper 1996, Adler 1997). Cross-cultural teams can be managed over three stages: the entry and formation stage (including trust building and developing cohesion among the diverse national cultures), the work stage (including the problem description and idea creation utilizing culturally diverse experiences), and the action stage (including consensus building, decision making, and implementation) as described by Adler (2002). Unfortunately, cross-cultural teams rarely achieve their full potential. Process losses because
of mistrust, misunderstanding, miscommunication, stress, and a lack of cohesion often negate the potential benefits of cultural diversity in teams. Researchers have found that team members from more collectivist cultures, such as Japan, work more cooperatively with each other than their counterparts from rather individualist cultures, such as the United States (Cox, Lobel, and McLeop 1991). Only when team diversity is well managed can cross-cultural teams achieve their full potential. To function effectively, cross-cultural teams must, therefore, use their diversity to generate multiple perspectives, problem definitions, ideas, action alternatives, and solutions; learn to achieve consensus such as agreeing on specific decisions and directions, despite the diversity; and balance the simultaneous needs for creativity with those for cohesion (Adler 1997).

CONCLUSION
This paper set out with two goals. The first goal has been to verify the central hypothesis, which was that differences between national cultures can explain whether problems occur in international post-merger integration. Thus, theoretical methods for measuring differences in national cultures were reviewed and applied in a survey which confirmed the central hypothesis. The second goal has been to identify practical solutions based on the survey’s results, so that culture-bound problem areas of international post-merger integration could be managed better by practitioners. Future work in this field of study might analyze post-merger integration of other nations than Germany, the United States, and Japan, and might build on what has been learned from this study. Analyzing other national cultures with their different cultural dimensions might lead to completely new insights regarding relevant problem areas of post-merger integration. By combining the results of such studies, an overview of national cultures and respective problem areas could be achieved. Alternatively, future research might also consider the impact of organizational culture. This could serve to separate the effects of organizational culture differences and national culture differences on merger success. Thus, a better understanding of the general interrelationship between organizational and national culture could be developed. Future research could also add value by applying different research methods. Cross-industry studies, including a large representative sample, might lead to more general applicable results. Additionally, longitudinal studies analyzing the effects of the management of cultural differences in post-merger integration would be very helpful. To sum up, this study has explored a previously almost unexamined topic – the causal effects of national cultural differences in post-merger integration. Our findings underline that national cultures are of great importance for merger success.
REFERENCES


Figure 1: Cultural Dimensions of German, US-American, and Japanese Employees

Figure 2: Correlation of Differences between National Cultures and Problem Areas

Verification of Central Hypothesis:
Differences in national cultures do explain whether problems occur in international post-merger integration!

(**) Correlation is significant at the 0.05 level. (***) Correlation is significant at the 0.01 level.
Figure 3: Levels of Culture-bound Problem Areas in International Post-Merger Integration

Organizational Level
(Structures, Payment)
Leadership Level
(Leadership Styles)
Interpersonal Level
(Content of Communication, Qualification)

Organizational Structures
Payment and Incentives
Cross-cultural Training
Cross-cultural Team Building

Cross-cultural Leadership
Cross-cultural Communication
General Cross-cultural Qualifications

Figure 4: Managing National Cultures in International Post-Merger Integration: Bottom-Up and Top-Down

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