Strategic Alliances, Mergers and Acquisitions

The Influence of Culture on Successful Cooperation

Edited by

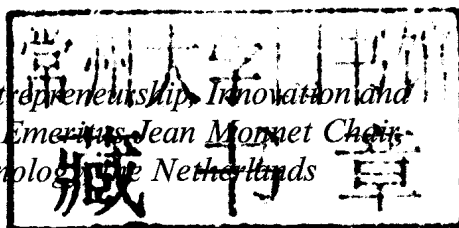**Jan Ulijn**

Geert Duysters

Elise Meijer

Strategic Alliances, Mergers and Acquisitions

The Influence of Culture on Successful Cooperation

Edited by

Jan Ulijn

Professor of International Entrepreneurship, Innovation and Culture, Open University and Emeritus Jean Monnet Chair, Eindhoven University of Technology, the Netherlands

Geert Duysters

Professor of Innovation Management, Eindhoven University of Technology, Tilburg University and UNU-MERIT, the Netherlands

Elise Meijer

Eindhoven University of Technology, the Netherlands

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

© **Mixed Sources**
Product group from well-managed
forests and other controlled sources
FSC www.fsc.org Cert no. SA-COC-1565
© 1996 Forest Stewardship Council

Contributors

Cary L. Cooper, CBE, Distinguished Professor of Organizational Psychology and Health at Lancaster University Management School, UK.

T.K. Das, Professor of Strategic Management at the City University of New York, USA.

Vlado Dimovski, Professor of Management and Organization at University of Ljubljana, Slovenia.

Geert Duysters, Professor of Innovation Management at the Eindhoven University of Technology, Tilburg University and UNU-MERIT, the Netherlands.

Jan Eppink, Professor of Strategy and Environment at VU University Amsterdam, the Netherlands. He is also a member of a number of supervisory and advisory boards of companies and foundations.

Jean-Marie Fèvre, Senior Lecturer for Management Sciences at the University of Metz, France. Active in the field of cross-cultural management in different countries and positions for decades, he was awarded the Cross of Merit of the German Federal Order of Merit in 2000 and was made a Knight of the French National Order of Merit in 2008.

Gerhard Fink, Jean Monnet Professor for applied microeconomics in European integration and director of the doctoral programmes at Wirtschaftsuniversität Wien, Austria.

Victor A. Gilsing, Associate Professor at the Department for Organization Studies at Tilburg University, the Netherlands. He is also a Core Fellow of the Centre for Innovation Research (CIR) at Tilburg University.

Frits Grotenhuis, independent consultant in the field of strategic collaboration and innovation. He obtained a PhD degree at the University of Groningen, the Netherlands, in collaboration with Eindhoven University of Technology and Waseda University in Japan.

Beatrice van der Heijden, Professor of Strategic HRM at the Open University of the Netherlands. She is the Head of the Department of Organizational Behavior/HRM, and Director of Research and Doctoral Programs at the

Maastricht School of Management, the Netherlands. Moreover, she is affiliated with the University of Twente at the Department of HRM.

J. Friso den Hertog, Professor of Technology, Organization Policy and Organization Design, Maastricht University and Professorial Fellow at UNU-MERIT, the Netherlands.

Gert Jan Hofstede, Associate Professor at the Logistics, Decision and Information Sciences section, Department of Social Sciences at Wageningen University and at the Man–Machine Interaction Group at Delft University of Technology, the Netherlands.

Nigel J. Holden, Director of the Institute of International Business, Department of Strategy and Innovation, Lancashire Business School, University of Central Lancashire, UK.

Michiel F. de Jager, former graduate student at the Eindhoven University of Technology, the Netherlands. He is currently working as a consultant at Deloitte Enterprise Risk Services.

Robert Kaše, Assistant Professor of Management at the Faculty of Economics, University of Ljubljana, Slovenia. He is also the president of the regional association for HRM in Ljubljana and a member of several professional and research networks.

Rajesh Kumar, Associate Professor of International Business Strategy at the University of Nottingham, UK. His research encompasses the management of alliances, India as an emerging market, and international negotiations.

Nantawan Noi Kwanjai, Doctoral Candidate in Innovation, global business strategies and host-country development, UNU-MERIT Maastricht, the Netherlands.

Elise Meijer, Doctoral Candidate at the Department of Innovation, Technology Entrepreneurship and Marketing, Eindhoven University of Technology, the Netherlands. Her research encompasses open innovation, strategic alliances, alliance teams, alliance portfolio diversity and alliance capabilities.

Darja Peljhan, Assistant Professor at the Department of Management and Organization at the Faculty of Economics, University of Ljubljana, Slovenia. She is also the associate member of the Department of Accounting at the same university.

Miha Škerlavaj, Assistant Professor at the Department of Management and Organization at the Faculty of Economics, University of Ljubljana, Slovenia.

Metka Tekavčič, Full Professor at the Department of Management and Organization at the Faculty of Economics, University of Ljubljana, Slovenia. She is the Head of the Institute of Management and Organization at the same university as well as an associate member of the Department of Accounting.

Jan Ulijn, Professor of International Entrepreneurship, Innovation and Culture at the Open University and Emeritus Jean Monnet Chair at the Eindhoven University of Technology, the Netherlands.

Bob Walrave, Doctoral Candidate at the Department of Innovation, Technology Entrepreneurship and Marketing, Eindhoven University of Technology, the Netherlands.

Nada Zupan, Associate Professor of Management at the Faculty of Economics, University of Ljubljana, Slovenia. She is also a regular programme director for different management training courses at Center for Management Training and Development at the Faculty of Economics, University Ljubljana (CISEF).

Preface: filling the gap in strategic alliances, mergers and acquisitions

Cary L. Cooper, CBE

The growth of strategic alliances, mergers and acquisitions (M&A) during periods of growth has been monumental but, given the period of economic downturn that started in 2007 and will continue throughout 2010, it is likely to grow even faster, as more and more companies will need to develop strategic alliances, acquire or merge to survive. We have already seen this in the financial sector, the construction industry, pharmaceuticals, information and communication and technology companies. Before this period of recession, motivations were varied: to grow by acquisition, to fulfil the ambitions of larger market share, and so on, but now it is for survival, to reduce costs and to be stronger in order to compete in a declining market.

There has been a great deal of research into strategic alliances, mergers and acquisitions, as can be seen for example by the annual *Advances in Mergers and Acquisitions* (Cooper and Finkelstein, 2008). What has been missing from much of this research, which has encompassed a range of disciplines from economics to finance to human resource management to legal issues, has been a systematic focus on the cultures of prospective allies (Kusstatscher and Cooper, 2005). Although a great deal has been done on the impact of strategic alliances and M&A on organizational performance and their impact on the individual, very little systematic work has been done on predicting their success based on the match between the different cultures involved. What cultures work in strategic alliances and M&A, and which combinations either do not work or require a great deal of support after closing the deal?

This book helps to fill this important gap, by bringing together some of the leading international researchers and thinkers in the field, to provide the science reviews needed to help us understand the significance of the influence of culture on successful cooperation. The contributions take an international perspective and range the globe from the US to Europe to the Far East. This is truly an outstanding contribution to the literature and should provide the necessary building blocks of science in strategic

alliances and M&A to help future researchers, as well as practitioners, in the selection of potential compatible partners and in facilitating a more successful change process in managing these major organizational events. This is a 'must' read for those working in the field of strategic alliances and M&A.

REFERENCES

Cooper, C.L. and S. Finkelstein (2008), *Advances in Mergers and Acquisitions*, Bingley, UK: Emerald.

Kusstatscher, V. and C.L. Cooper (2005), *Managing the Emotions in Mergers and Acquisitions*, Cheltenham, UK and Northampton, MA, USA Edward Elgar Publishing.

Acknowledgements

Contents

Culture, strategic alliances, mergers and acquisitions: an introduction

Elise Meijer, Geert Duysters and Jan Ulijn

Over the past decades, we have witnessed a sharp upheaval in the number of external organizational modes such as strategic alliances and mergers and acquisitions (M&A).[1] A large strand of literature has already reported on the benefits of these modes, for example the sharing of costs and risks, the learning of new skills and technologies and their role in international efforts of companies. In spite of the noted benefits, however, the track record of these external organizational modes paints a black picture. Most studies show that more than half of the strategic alliances and M&A do not prove to be successful.

Traditionally, scholars focused on 'hard' factors like financial and strategic factors for explaining the success or failure of these external modes. More recently, however, research into more 'soft' factors such as organizational and human resources-linked subjects have increased in importance (Larsson and Finkelstein, 1999; Stahl and Voigt, 2008). This has led to a growing and emergent body of literature on the importance of culture for the success of strategic alliances and M&A.[2] According to Hofstede (2001), culture can be treated as 'the collective programming of the mind that distinguishes the members of one group or category of people from another' (p. 9). As argued by among others Stahl and Voigt (2008), scholars have sought to explain the (under)performance of these external modes by variables such as cultural distance (Morosini et al., 1998; Simonin, 1999; Shenkar, 2001), cultural diversity (Parkhe, 1991), cultural compatibility (Cartwright and Cooper, 1996; Sarkar et al., 2001), cultural fit (Datta and Puia, 1995; Child and Faulkner, 1998; Weber et al., 1996), management style similarity (Larsson and Finkelstein, 1999), organization (cultural) congruence (Brown et al., 1988; Barkema et al., 1996; Park and Ungson, 1997), cultural change (Kavanagh and Ashkanasy, 2006), cultural convergence (Birkinshaw et al., 2000), or acculturation (Nahavandi and Malekzadeh, 1988; Larsson and Lubatkin, 2001).[3]

Much of this research has investigated the impact of national culture on the performance or longevity of strategic alliances and M&A. Different

national cultures lead to extensive differences between the people who are part of the strategic alliance or merger and acquisition because they are subject to fundamentally different sets of social institutions, including education systems, labour markets and geographical mobility (Calori et al., 1997; Whitley, 1992; Hambrick et al., 2001). These differences in national culture can create a source of conflict and misunderstanding that prevents the partners from successful cooperation (for example Parkhe, 1991; Datta and Puia, 1995; Lyles and Salk, 1996). This is in line with Hofstede's (1980) hypothesis of cultural distance in which he argues that the difficulties, costs and risks associated with cross-cultural contact increase with growing cultural differences between individuals, groups or organizations (Stahl and Voigt, 2008). Barkema and Vermeulen (1997), for example, found that differences in uncertainty avoidance and long-term orientation between home and host country (rather than differences in power distance, individualism and masculinity) have a negative impact on international joint venture survival because these make organizations perceive the opportunities and threats differently, which may result in different actions by the organizations (Schneider and De Meyer, 1991). However, the opposite view, that differences in national culture between the partnering organizations can be beneficial, leading to a source of value creation and learning, has also been advanced and empirically supported (Shenkar and Zeira, 1992; Park and Ungson, 1997; Stahl and Voigt, 2008). Morosini et al. (1998), for example, found that national cultural distance enhances cross-border acquisition performance 'by providing access to the target's and/or the acquirer's diverse set of routines and repertoires embedded in national culture' (p. 137).

These inconclusive results of the effect of cultural differences on performance may imply that the role of national culture has been overstated: most studies have not taken into account the impact of organizational cultural differences as well (Pothukuchi et al., 2002; Sirmon and Lane, 2004). Pothukuchi et al. (2002) even found that the apparent negative effects of partner dissimilarity on international joint venture performance 'originates more from differences in organizational culture than from differences in national culture because organizational culture distance captures the ongoing operational differences in the norms of organizational practices and behaviors' (p. 259) negatively influencing the implementation of the joint venture. Whereas national culture is first and foremost related to inherent values, organizational culture primarily relates to common beliefs in organizational practices and processes (Hofstede et al., 1990). According to Hambrick et al. (2001) each parent firm will have its own internal culture, including management selection and staffing practices, giving way to a distinctly skewed set of managers who are responsible for the strategic alliance or M&A. Research in strategic alliances and M&A has consistently

shown negative effects of organizational culture differences (Cartwright and Cooper, 1993; Pothukuchi et al., 2002). For instance, Weber et al. (1996) showed that differences in organizational cultures between acquirer and acquired firm negatively influenced cooperation among the top managers and enhanced negative attitudes toward the merger. Additionally, Simonin (1999) showed that differences in management styles and business practices amplify ambiguity in the process of knowledge transfer.

However, there is one cultural level out of the three generally distinguished that has often been overlooked and may also affect strategic alliances and M&A, namely professional culture (Ulijn and Weggeman, 2001; Sirmon and Lane, 2004). According to Sirmon and Lane (2004, 311) a professional culture exists 'when a group of people employed in a functionally similar occupation share a set of norms, values and beliefs related to that occupation'. According to Lane and Lubatkin (1998) individuals with different occupational socialization and resulting professional culture lack a common basis from which to interact effectively and from which the relationship can develop and produce value. Therefore, it is not very suprising that Lajara et al. (2003) found that technology (research and development, R&D) alliances are the alliances with the lowest level of cultural conflict, due to the fact that the habits of scientists and engineers are practically the same on a worldwide basis. Problems start to occur when the cooperation is extended to commercialization and distribution because people from different professional cultural backgrounds start working together who do not agree on certain points (Schultz, 1998). On the other hand, different mental models or different 'thought worlds' belonging to the different professions may facilitate the dynamic process of combining diverse competencies which boosts team collective creativity, leading to the successful development of new products (Olson et al., 1995).

So far, little attention has been paid to the level of professional culture in strategic alliances and M&A. Most studies on the role of culture, strategic alliances and M&A have focused on national and corporate culture. However, successful cooperation also requires that different professions of the partnering companies are able to interact with each other. Therefore the essence of our book is that both national and corporate culture as well as professional culture may affect the success of strategic alliances and M&A (see also Sirmon and Lane, 2004). That is, individuals in strategic alliances and M&A can utilize several different social identities (namely national, organizational and occupational) as sense-making mechanisms (see for example Salk and Shenkar (2001)).

Consequently, we will deal in this book with three different levels of culture, namely national culture, organizational (or corporate) culture and

professional culture. Given the kaleidoscope of the influence of culture on strategic alliances and M&A we had to adopt several guidelines for the order of the chapters in this book. First, the level of culture involved, from national to corporate to the broadly underestimated professional culture. Second, being mostly a mix of different levels of culture, the chapters are also presented in an order going from rather conceptualizing with some illustrating case study examples, to rather empirical studies.

Chapter 1, 'Strategic alliances and culture in a globalizing world' by Kumar and Das examines how micro behavioural processes in alliances are affected by national culture. They discuss two significant frameworks of alliance functioning, namely, those of discrepancy and legitimacy, and argue that the impact of culture is manifested differently in the two frameworks. While the discrepancy framework stresses the importance of expectations, the legitimacy framework highlights the relevance of appropriate behaviour. Although expectations and behaviour are no doubt related, they are also quite distinct, and this distinction is important in understanding the genesis of the stability problems in an alliance.

Chapter 2, 'Why do international alliances fail? Some insights from culture and human social biology' by Hofstede combines alliance literature with basic insights from human social biology and culture to explain why international alliances frequently fail. In particular, the work of Hofstede is brought to bear upon the processes that occur in alliances. First, he argues that alliances often fail for many other reasons than culture. Hereafter a number of frameworks from the alliance literature are introduced. Kumar and Nti's framework about the evolution of discrepancies is the most important of these, as it can explain the dynamics of cross-cultural conflicts. The importance of alliance formation has been considered to be a basic ability of human groups. After this, Hofstede's framework of five basic issues of culture is introduced, and national culture is briefly positioned against professional and organizational culture. These various theories are integrated in a discussion about three boundaries that alliances have to cope with: the issues of authority, of joint group membership and of fairness. The insights from culture theory are used to elucidate how issues from the alliance literature can play out in different cross-cultural situations. Two case studies taken from the international agro-food sector illustrate the argument.

Chapter 3, 'Creating a supportive culture for corporate entrepreneurship: balancing creativity and discipline for the development of radical innovation by interfirm cooperation' by Walrave, Gilsing and De Jager, addresses the question of whether entrepreneurial corporate activities and/or ventures are required to deviate from established practices that come with the dominant corporate culture. To answer this question they analyse

the key features of culture of an organizational unit that specializes in corporate entrepreneurship (CE) activities, using Hofstede's dimensions of corporate culture. They illustrate this analysis with empirical findings on the culture of various CE units within two large, high-tech companies. Moreover they discuss how such a CE-'friendly' culture may be created. Here, they specifically discuss the role of strategic alliances as a means to accomplish a CE culture in such a way that it indeed differs in essential ways from the dominant parent culture.

In Chapter 4, 'Culture and its perception in strategic alliances: does it affect performance? An exploratory study into Dutch–German ventures', Ulijn, Duysters and Fèvre consider both national and corporate culture. This exploratory study examines the fit, that is, the degree of fruitful compatibility, of six national culture (NC) and six corporate culture (CC) (the dimensions of Hofstede) parameters in 12 Dutch–German cooperation processes. Twenty-four firms were asked to verify the nature of their cultural fit and to relate this perception to the perceived alliance performance. There appears to be a strong (not necessarily causal) relationship between the perception of cultural fit and the corresponding alliance performance. This finding may have important implications for alliance management. Instead of its general preoccupation with strategic and operational fit among alliance partners, more attention should be paid to cultural fit. The inclusion of cultural fit indicators in the overall partner selection process might well pay off in terms of increased alliance performance.

In Chapter 5, 'Cultural differences and homogeneity in strategic alliances: the case of Trimo Trebnje (Slovenia) and Trimo VSK (Russia)', Tekavčič, Dimovski, Peljhan and Škerlavaj pinpoint the issue of national, organizational and professional cultures within a strategic alliance. The study presents the case of Trimo Trebnje d.d., a Slovenian construction company, and its greenfield joint-venture investment Trimo VSK Kovrov from Russia. Using the Trompenaars measurement instrument they show that in terms of national cultures (as perceived by members of these two organizations) Slovenian and Russian companies differ significantly only in terms of in terms of specificity, achievement orientation and sequence. A relatively homogeneous organizational culture was developed and is still developing due to a strong training effect. Interactions among professional and national cultures prove that professional cultures have a bigger impact on employees' dedication than the organizational culture. They explain homogeneity in the manufacturing department in terms of the professional culture effect as well as good communication of values and practices in the past.

Chapter 6, 'Strategic importance of organizational culture in the context of organizational growth through acquisitions: the case of the Helios Group' by Zupan and Kaše, aims to analyse the cultural fit among

the three largest companies in the Helios Group: the mother company Helios (Slovenian), and the acquired companies Zvezda Helios (Serbian) and Color (Slovenian as well) using the above-mentioned Trompenaars method. Cultural fit between the companies involved in an acquisition has been known to be one of the important factors determining the success of the acquisition. With the growing number of acquisitions, the Helios Group top management has also recognized this issue to be important for further development as a modern international corporation. They argue that companies should focus on the optimal cultural fit rather than absolute cultural fit. Some differences in organizational culture could be beneficial because they better suit either national (especially at lower firm levels) or professional cultures and could actually contribute positively to company performance. However, when it comes to lower firm levels, where the effect of national culture seems to be stronger, a careful consideration as to which organizational culture changes are really needed is crucial, because it would not be effective to go against national culture contexts or to break away too abruptly from traditions and thus risk a higher resistance to change.

Chapter 7, 'Cross-border marriages: Dutch–Japanese and Dutch–American combinations' by Grotenhuis, deals with cultural differences within cross-border mergers. Several reasons for failure have been brought up in the literature; however real-life cases of the 'how' and 'why' are limited or fragmented, especially for processes of cultural integration. The cases described in this chapter concern combinations of Dutch–Japanese and Dutch–American organizations. Grotenhuis uses three in-depth case studies to illustrate cultural integration patterns. Based on these in-depth cases between Dutch–Japanese and Dutch–American mergers, and a literature review, he concludes that cultural differences can play a major role in the success of a merger, but not necessarily. This is related to several factors – amongst others, the degree of integration – but also to the way in which management deals with the differences. Based on the case studies, four different patterns of acculturation could be discerned: 'marriage after engagement', 'shotgun wedding', 'living apart together' and 'divorce'.

In Chapter 8, 'Managing potential conflicts in a European banking alliance in ICT: study of intro- and mutual perception combined for a cultural fit', Eppink, Ulijn and Van der Heijden go into some other factors that may impact upon the success of the strategic cooperation beside cultural (mis)fit. In this respect they draw attention to the appropriateness of the chosen aims for the alliance, the appropriateness of the chosen form relative to the aims, and the stages in the evolution of an alliance that may require adaptation of the alliance competences to the new situation. In the empirical part of the chapter, they investigate the role of culture in the strategic alliance within the Information and Communication Technology