The importance and the influence of the corporate culture in a merger and acquisition context

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Abstract

Mergers and acquisitions (M&A) are one of the fastest strategic options that companies choose to face the global competitive market. However, previous researches have highlighted the high rate of failure among M&A. In fact, the merging companies have to face the issue of cultural differences which is one of the common reasons of M&A failure, reinforced when it comes to cross-borders combinations. Indeed, both partners incorporate in the new merged company the national and the corporate cultures. So, in order to be successful, the leaders have to consider the importance and the influence of these issues meticulously during the post-merger integration process; at the same level as the synergies, business performance and profit improvement.

In order to have a better understanding of the corporate culture mismatches issues, we will present first in the theoretical part three major sections: the merger and acquisition context, the corporate culture and its concepts and finally the leaders’ role within the M&A integration process. The second part will be illustrated by two case studies: the Daimler-Chrysler (a failure) and the Cloetta Fazer (a success) mergers. The first case represents the complexity that leaders can meet in any international merger. It is the typical frame where the cultural issues have been underestimated. On the other hand, Cloetta Fazer is one of the successful mergers that can be taken as a reference for managers in future merger integration. In that case, the pre-merger phase played an important role in the integration process because each aspect of the cultural differences was identified and a new and shared corporate culture was implemented.
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Chapter 1: The overall view of the thesis

1.1. Introduction

Cultural meetings are regularly present in the life of organizations as they interact through collaboration, partnership or joint ventures. In the context of M&A, nevertheless, the contact of cultures is not only limited to some isolated projects since the whole identity of both organizations could be altered. During mergers and acquisitions, both organizations usually meet cultural clash which is one of the principal causes of unsuccessful associations. Shreader and Self (2003) call the culture ‘the make or break factor in the merger equation’. Plus, according to the research by CFO Magazine, Business Week, Fortune 70% of mergers and acquisitions fail to achieve their anticipated synergies and 50% suffer an overall drop-off in productivity in the first four to eight months because the leaders do not recognize that the human factor is one of the most important issues. One cause often cited for merger failure, for example, is that proposed synergies fail to materialize because of a clash of corporate cultures. Underestimating the costs in integrating different corporate cultures or failing to recognize the essential incompatibility of different forms of corporate organization can create human resources problems that overwhelm the newly merged company’s ability to capitalize on anticipated efficiencies. "People problems” were cited as the top integration failure factor in a sample of 45 CFOs from Fortune 500 companies that had recently merged or acquired. Unfortunately, it is often one of the last tasks that the leaders take into consideration. (Faiez Kirtsen, 2001). Moreover, they do not pay attention on managing cultural change which is related to merger and acquisitions. They are more preoccupied by the shareholder value and the market business and financial synergies. Indeed, Stern, a corporate culture expert have administered a survey to top executives for the past several years. It shows that, “they have heard about culture but are not doing anything to manage it. In fact, 75 percent admit they have no plan to manage cultural change associated with mergers and acquisitions. Seventy percent say their business has not assessed its culture. As much as the majority felt that mergers and acquisitions were viable strategies, they also admit they don't have a plan for addressing
cultural issues that might arise in a merger”. (McGarvey, 1997). Douglas D. Ross, Managing Director, Square Peg International Ltd. points out that underestimation and/or lack of consideration of the people or cultural integration challenges and the impact of varying leadership styles are some of the factors that can erode expected "deal value". Companies that pay attention to culture are rewarded financially – through growth and value – and are seen as desirable places to work. As a result, they attract the talent that will generate the next wave of growth and value. (Beaudan and Smith, 2000).

Also, a culture has an uncanny ability to resist change and as Eric Beaudan and Greg Smith (2000) say that “the basic dilemma of organizational change is that it must be freely adopted by the people that it affects, who are likely to be against its introduction”. Edgar Schein (1993), one of the most eminent commentators of corporate cultures wrote that “What really drive the culture – its essence – is the learned, shared, tacit assumptions on which people base their daily behaviour”. However, the change that occurs as a result of a merger is imposed on the leaders themselves. Therefore, we can also assume that leaders may be aware of the mismatch corporate culture but have no time to address the corporate culture change due to the pace of change. “Management often views corporate culture issues as somewhat squishy. Like cold fusion, they think everything will work out”, says professor Bob McGowan, chairman of the department of management at the university of Denver’s Daniels College of Business. So, it is important that leaders recognize the issues of the cultural differences and take into consideration the short time issue that they have to address while they face a merger or an acquisition.

When two different companies with different backgrounds, histories and ways of working get together the cultural change might happen. The acquiring company has to capture the full value of the merger by integrating carefully each element of both organizations. The development of a new and shared culture is one of the critical factors for merger success. So, the initial challenge for all organizations which consider a merger or acquisition is to understand that the culture has deep roots that can not be easily pulled out, examined and reprogrammed to create a new shared culture. Creating a shared culture involves careful discovery, inventing, reseeding and letting go (Beaudan and Smith, 2000).
1.2. Problem analysis

The modern global business environment is characterized by the increasing number of international mergers and acquisitions. The reasons behind this widespread phenomenon are mostly laid on the constant rise of the economic and industrial globalization which has considerably increased the worldwide competition. Companies have various strategic options available to them in order to achieve their growth objectives and to compete effectively in the global marketplace. The first key decision they must make is whether to grow incrementally or to take a giant leap forward. Incremental growth options include introducing new products or services, enhancing existing services to grow top-line revenue, and entering into new markets. (Douglas D. Ross, 2005). If the company plan to take bigger steps in terms of growth (the 'leap forward' approach), perhaps the fastest way for the actual companies to expand their operations internationally in such context and to take advantage of the universal marketplace is by merging with another company or acquiring other companies. Indeed, the mergers and acquisitions represent one of the powerful factors of the further transformation of the social and economic life while the “integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and spread of technology” are stretched all around the globe. (wikipedia: globalization). However, mergers and acquisitions correspond to significant changes in organizational conditions that, for at least some of the new organization’s members, require from them to adjust to new cultural norms and adopt fundamentally different ways of doing things. Although there is a lot of literature on how to realize organizational change, most change efforts do not produce the intended results. Argyris (1999) outlines that change programs that intend to transform individual or organizational behavior fail to almost one hundred per cent.

As mergers and acquisitions continue their progression in the global business landscape with $3,7 trillion in 2006 against 3,4 trillion in 2000 (Thomson financial, 2008), the corporate culture differences have gained more and more attention among the researchers in the last 20 years (Cartwright & Cooper, 1993; Trompenaars & Wooliams, 2000; Lynch & Lind, 2002; Veiga et al., 2000; Weber et al., 1996; Bijlsma-Frankema, 2001; Very et al., 1997; Edgard Schein, 1999). In fact, the differences involved “the company identity,
communication difficulties, human resource problems, ego clashes, management style, national cultures and the inter-group conflicts” (Michelle C. Bligh, 2006). Cartwright and Cooper (1993) state that the merger is an important human as well as a financial activity where the culture is compared to the marriage where the success depends on the partner compatibility. Additionally, there is no need to argue for the importance of corporate culture on organizational behaviour and performance. Researchers have (e.g. Bennis and Nanus 2003, Shein 1999) argued extensively for corporate culture as the crucial factor for successful organizational development during mergers and acquisitions. Bono and al claimed that the corporate culture needs careful attention - establishing the correct and appropriate corporate culture is an essential process of managing an organization. (Bono and Heller, 2008).

1.3. Importance of the problem

In this section we would like to talk about the importance of the corporate culture integration issue from different points of view. In general, M&A integration is important as the industry as a whole is caught up with the wave of mergers and acquisitions. As globalization, information technology and other significant factors drive business boundaries and borders to diminish and as companies strive for competitive advantage, more industries will be consolidate.

In order to manage the change successfully, leaders have to understand the process and implications of mergers and acquisitions. As we have mentioned, the cultural issue of M&A are complex and important for achieving the expected results. Gancel et al. (2002) explain that leaders neglect the cultural aspect of mergers and acquisitions due to a lack of awareness. It means that leaders are not conscious that cultural differences can turn out to be a real obstacle for the integration’s success.

Lack of understanding prevents leaders from defining the culture of another organization as well as their own and makes them neglect the non visible aspects of culture. They might also not know which factors are to be assessed and thus they are not able to evaluate what kind of impact culture could have on the operational and performance levels.

Lack of willingness means that leaders may decide not to attach importance to the cultural dimension and tend to place more priority on other issues. Indeed, the leaders have to
prove to the shareholders that the merger or the acquisition worth the money engaged in that process through financial rates. Moreover, managers may not feel at ease with the human aspects during M&A and they might even be afraid of it. They then would prefer to focus their attention on something which is more predictable.

Some leaders also present a lack of interest for the cultural issues as it is, unlike large financial or operational implications, less likely to grab the headlines. Leaders might realize that cultural problems are present but think they are powerless against it. Cultural issues are important but are just too difficult to manage.

Finally, leaders could have a lack of ability as they are not trained to manage the cultural dimensions. It is necessary to note that organizations and education systems do not encourage leaders to develop this ability. Evidently, they may lack the attitudes, behaviors, skills and tools necessary to deal with cultural conflicts.

To sum up, the field of cultural issues in mergers and acquisitions present a lack of awareness, understanding and interest. Nevertheless, the M&A literature has started to fill this gap and leaders with experience in this field can share their knowledge with scholars, experts and researchers. We then have enough material to explore this subject and bring our contribution to the field of study.

1.4. Significance of the problem

Our research will focus on the corporate culture aspect during mergers and acquisitions as it plays an essential role for the integration process. Organizations willing to merge can learn a lot from successful examples as well as from past mistakes.

As many researches about our topic have done, to our mind there is a need to compile and present the information which is made by others. This problem is still very relevant and our research is targeted to individuals who, as members of acquiring or acquired organizations, have the power to negotiate some of the processes for the implementation of mergers, as well as to those who are simply at the receiving end of all the changes. In our opinion, the ideas of this study can be useful for the executives who negotiate a merger to plan for the cultural aspects that are often the key to the success of a merger or an acquisition.
1.5. The research question

According to our interest in corporate culture, the main research question is: “What are the cultural challenges that leaders face during M&A”. We would like to identify the crucial moments that are concerned by the corporate culture can cause the success or the failure of mergers and acquisitions. Our aim is to define the role and behavior of a leader in the implementation process of the corporate culture during mergers and acquisitions. In our thesis we want to examine if it is possible to manage cultural changes during merges and acquisitions from the leader perspective.

1. In order to make our study effective we would like to examine the general problems within which our research issue makes sense. First of all we want to describe the different types, methods, models and the classification of mergers and acquisitions and the motivations of their emergence.

2. According to the cultural differences, there are different frames of reference which result to misunderstandings and low performance in the case of mergers and acquisitions. Therefore we would like to define the concept of corporate culture because there is no clear descriptive image of culture. Furthermore, it is difficult to describe and define corporate culture explicitly. Thus, we will try to specify the concepts of the corporate culture, to reveal its formation, their features and consider different models and types of corporate culture. And finally to explicit how important is the corporate culture for the organization functionality.

3. After defining the meaning of corporate culture it is essential to define the role that leaders can play at all the organizational levels in influencing cultural change as leaders help the followers to negotiate, modify, and manage cultural similarities and differences in the merger and acquisition environment.

When the corporate culture is implemented it is crucial to identify the key processes and conditions in a frame of mergers and acquisitions which lead to the success or the failure of the new organization.

In order to find out to which extend the corporate culture can be managed from the leader perspective and which crucial moments, factors and variables that are concerned by the corporate culture can cause the success or the failure of mergers and acquisitions we decided to
examine case studies which will provide the illustration of our issues. We found that cases would be suitable with respect to our limited timeframe and limitation of the study in connection to our level or research. The case studies are developed based on the content of our research questions. The case studies are constructed mainly based on secondary data obtained from company websites, their publications and press releases, newspapers and magazines, etc. We are going to look at events which are provided systematically, collect necessary data, analyze information, and report the results.

1.6. The aim of the thesis

The purpose of our thesis is first to gain a deeper understanding of culture and its impact in the organizations’ life. Therefore, we have decided to focus our study in compiling and analyzing the literature about corporate culture in M&A. Also, in this paper we will look at the role of cultural issues in a merger and acquisition situation; specifically, whether cultural leadership can help to make possible cultural integration. First of all, we will present different types, methods and the classification of mergers and acquisitions and the motivations of their emergence. We intend to describe the importance of organizational culture and people in the successful management of mergers and acquisitions. We will define terms as corporate culture and national culture, and their interrelation. Moreover, we will illustrate an acculturation model, its stages and modes. We then focus on the leader’s role in cultural integration during mergers and acquisitions. Also, in accordance with different case studies we expect to have a new picture of crucial factors that are concerned by corporate culture which lead to success or failure of mergers and acquisitions. We will compile theoretical knowledge to point out common pitfalls in cultural integration in M&A.

1.7. The limitation of the study

Acknowledging our condition of research master students, some important limitations were present during the development of this study. Since many studies about the importance of corporate culture have been made by other researchers, in this paper we will collect only secondary data. Consequently the research will be the one based on a case study. We will try to
answer our research questions through compiling several successful and unsuccessful cases studies. We are going to look at events which are provided systematically, collect necessary data, analyze information, and report the results.
Chapter 2: Methodology

In this chapter we describe the methodology which we will apply in our thesis. The case study method has been selected because it is related to the purpose of our study. We would like to focus on our methodology approach, the research design, applied methods for research, data collection and analysis.

2.1. Methodology approach

According to Saunders et al. (2000) the research approach can be deductive, inductive or abductive. According to the deductive approach, theories and hypotheses are tested against reality and then verified or falsified. Then, the inductive approach is based on empirical findings and seeks to generalize findings of the studied phenomena to laws and theories. Finally, the abductive approach is a method that alters between deductive and inductive methods. In our research, we mainly use the deductive research approach by compiling and describing the other author’s theories of corporate culture in mergers and acquisitions, sorting them out, analyzing them and making our own results.

In addition, there are also two other approaches of research which are qualitative approach and quantitative approach. The quantitative research approach uses statistical tools to collect and quantify numerical data. It often involves large scale participants to quantify the frequency of occurrence and complex text scores (Sayer, 2000). On the other hand, qualitative approach provides the collection of information that cannot be quantified. Strauss and Corbin (1998, p. 11) describe the qualitative research approach as “a research about persons’ lives, lived experiences, behaviours, emotions and feelings about organizational functioning, social movements, cultural phenomena, and interactions between nations”. It involves the need to discover what is really going on and the belief that persons are actors who take an active role in responding to problematic situations (Strauss and Corbin (1998, p. 11). Qualitative data includes the understanding of human behaviours and the reasons why humans act in a
particular way. It permits the evaluator to study the selected issues in depth and allows detail description of the events as perceived by the individual (Patton, 1990).

Qualitative method has the ability to answer to the questions “why”, “what” and “how” (Saunders et al. 2000). Therefore, in answering the crucial question “What cultural challenges the leaders face during mergers and acquisitions” we will use more qualitative data than quantitative data. The reason of this it is that quantitative research is comparatively less important as its numerical analysis is not well suited to answering the main question regarding the complex issues in our research. We believe that the qualitative approach would help us to achieve the comprehension we want to have.

2.2. Research strategy

There are many different research strategies available for doing research. Researchers are often confused to choose which strategy is best suited for the specific study because the alternative strategies are available depending on what kind of questions are to be answered and what research problem has to be solved. According to Yin (1994), there are five different research strategies: experiment, survey, archival analysis, history and case study. In order to make the research easier, it is necessary for researcher to understand the differences between the strategies.

For the research with mainly qualitative approach, Denzin and Lincoln (2000) recommend the case study strategy. The case studies are powerful for studying processes; therefore we would like to present the case study approach and its controversial meaning for the research. According to Hamel (1993), the case studies have proven to be investigations of the particular cases. The case studies typically examine the interplay of all variables in order to provide as complete understanding as possible to an event or situation (Hammersley, 1987). The case study is especially advantageous when “how” or “why” questions are being asked about events over which the researcher has a limited control. We have chosen the case study strategy because we want to find out how the leader can manage the corporate culture within mergers and acquisitions.

The primary advantage of the case study is that an entire organization or entity can be investigated in depth and with thorough detail on the issue. This highly focused attention
enables the researchers to carefully study the order of events as they occur or to concentrate on identifying the relationships among functions, individuals or entities (Yin, 1989).

However, the case study method has been opposed by many authors, for example Yin (2003) claims that as it is too situation specific it does not provide a solid ground for scientific generalization.

Many researchers are suspicious of conducting case study research because of the “unscientific” property it has. Saunders et al. (2000) argue that a case study can be a very worthwhile way of exploring existing theory, but on the other hand, they openly admit that a simple well-constructed case study can enable to challenge an existing theory and also provide a source of new hypotheses.

According to Yin (1994), there are multiple-case and single-case study. Therefore, it is important for researchers to examine and make distinctions whether the case is multiple or single case design. The single-case design means only one unique case is being studied and investigated in order to have a critical test on an existing, well formulated theory. On the other hand, the multiple-case design is applied when the research study contains more than one single case. Yin identified four different types of design for case study: single-case holistic design, single-case embedded design, multiple-case holistic design and multiple-case embedded design. There is a distinction between holistic and embedded design. It concerns the number of analysis units that are analyzed in the case study. A holistic case study takes only one unit of analysis with a global approach while the embedded case study involves multiple units of analysis within the same case. As a result, the first distinction by Yin (1994) concerns how many cases are analyzed, while the second distinction emphasizes on the number of units that are analyzed within the studied case.

In our case we judge that the most appropriate methodology is to use a holistic multiple-case approach as the research design. We will try to answer our research questions through several multiple real-life cases, such as Daimler-Chrysler (unsuccessful case), Cloetta and Faizer (successful case). That is the multiple-case design. Besides that, our study consists of single unit of analysis. Hence, it is holistic case study. It covers the corporate culture issue during mergers and acquisitions. Many studies have been made about our research questions which are very helpful for collecting data. The data which we will use in this study will be
collected from the companies’ websites, magazines, already published reports, newspapers, journals and publications and research papers.

2.3. Cases selection

In the introduction part, we have mentioned that the merger and the acquisition wave has become a widespread phenomenon and the development of a new and shared culture is a critical factor for merger success. The three cases that we have chosen are examples of successful merger Cloetta Fazer and unsuccessful merger Daimler Chrysler. The subsequent sample criterion is a merger or acquisition between two different cultures. Those companies have gone through restructuring and management changes where cultural issues have emerged.

2.4. Data collection

The data collection methods are an integral part of research design according to Sekaran (2002). There are many kinds of data collection methods and each method has its own distinct benefits and demerits. The nature of the research problem indicates which method is the best for finding appropriate outcomes from the study. Data collection for a research can consist of the collection of either secondary data or primary data or a combination of the two.

Primary data are collected for the specific research when the data available is not sufficient for the analysis. There are several different ways to collect primary data. The most common types of data collection are interviews and observations (Merriam, 1998). Secondary data is the data that has been previously collected and published. It often consist of articles, books, newspaper and magazine articles, internal and external case company material and Internet material.

We have to admit that our choice is based on secondary data. During the research period we find out that secondary data collected are appropriate and sufficient to point out the research questions. Therefore, the information in this thesis is based mainly on secondary data collected from a large variety of sources. We have collected data using several web library, university library and other possible sources.
Furthermore, the secondary data are collected for purposively other than the problem at hand, while primary data are data originated by a researcher for the specific purpose of addressing the problem at hand. Kumar (2000) thinks that the secondary data may be seen as “second hand” considering that the data have been generated in older projects which will be used in a new project. The use of secondary data has certain disadvantage as well because it has been collected for other purposes than the problem at hand, their usefulness to the current problem may be limited in several important ways. Nevertheless, the importance of secondary data is unavoidable. As refer to Sekaran (2002) views, considering the situations such as availability of data, accuracy of data, time span and cost factor of the study, secondary data plays significant roles in research. Finally, after analyzing the advantages and limitations of using secondary data, we will pursue this study based on this method. Since secondary data is already available, using this source would provide us more time to think about the theoretical aims and important issues arising from the research. Plus, it will allow us to interpret and analyze data in order to meet the research objectives.

Moreover, the constraints of time and the scope of the research are also the reasons for having chosen secondary data method over primary data. Finally, since most of the data are from official research organizations and institutions, its reliability and accuracy are high.
Chapter 3: Literature review

The fields of our theoretical framework are covered by different important concepts: the mergers and acquisitions, the corporate culture, the leadership and cultural change management.

3.1. The analyses of the types and methods of mergers and acquisitions and the motivations of their emergence.

As the mergers and acquisitions constitute the context of our study, it is primordial to understand how these activities happen, the different types and models of M&A and finally the motivations which lead the companies to merge with another one or to acquire some other companies.

Patrick A. Gaughan (2007) in his book writes about the mergers and acquisitions expenditures since the 20th century to nowadays by distinguishing five different waves that are illustrated by examples of mergers and acquisitions at each moment. Moreover, he presents the different types of mergers and acquisitions: horizontal and vertical transactions and also the conglomerate mergers. Plus, according to the author two major motivations dominate the activity of merger or acquisition: the growth through taking advantage of the acquired company’s resources and the synergy respecting the financial math equation that shows that “2 + 2 = 5”. Also, as opposed to the expand target, Gaughan emphasizes on the different alternatives which are available to achieve “corporate restructuring”. Also, the author points out the mistakes and failures resulting from the mergers and acquisitions. Plus, Gaughan explains, in this book, every type of corporate restructuring, including mergers and acquisitions, reorganizations, joint ventures, divestitures, leveraged buyouts. He examines the key strategies and motivating factors that arise from the “corporate restructurings”. Finally, he presents the best offensive and defensive practices for hostile takeovers.

Howard Finch (2008), on the other hand, emphasizes on the possible motivations that may result from a merger or an acquisition. According to the author, the economies of scales whereby the companies can produce cheaper are the main reason. He describes several additional motivations for firms to merge or acquire other companies: a similar idea to the
economies of scale is the economies of vertical integration that are carried out either to take advantage of the targeted firm’s business operations such as raw materials access or/and the distributions channels or to increase the market share. Moreover, the author employed a third term in his discussion, the “takeover” and the different types of takeover defences. He totalises seven “defensive mechanisms” in order to avoid the control attempt from an outside firm. The reaction of the firms management that are targeted depends on the hostile or friendly character of the attempt.

Chunlai and Findlay (2001) give in their article some insights related to the definitions of cross-borders merger and acquisition, and establish a classification of them. They focus their research on the Asia and Pacific side of the world. However, the authors start the discussion with a clear distinction between mergers and acquisitions. First, they refer to mergers as “merger by absorption” whereby one company absorbs one or more companies that are dissolved; and “merger by establishment” whereby both companies are merged into a new one (p.2). On the other hand, they present two forms of acquisitions: “asset acquisitions” where an acquiring company purchases a part or the whole assets of the targeted company and “share acquisitions” where the acquiring company buys shares in the target company from the individual shareholders. Plus, the authors argue that most of cross-borders M&A are horizontal. Actually, they classify the M&A in three categories: horizontal, vertical and conglomerate. Additionally, they pursue the article by claiming the major motivations of M&A. Indeed, cross-border M&As account for a significant share of global FDI flows, so in order to provide a helpful theoretical framework to analyse and explain the motives and causes of FDI through the mode of cross-border M&As, they introduce “the OLI (ownership advantage, location advantage and internalisation advantage) paradigm” (Dunning 1993). Although, they state that not all cross-border M&A’s are financed through foreign direct investment.

However, Harari Oren (2001), in his article titled “the truth about merger mania”, gives a totally different description of the motivations that lead the managers to mergers or acquisitions. Indeed, according to the author “about three-quarters of these wonderful sexy high-profile acquisitions will actually destroy shareholder value” (p.2). He advocates that we should forget about the usual motivations that are concerned by synergy, cross marketing, economies of scale, etc. The main reasons behind mergers and acquisitions are completely
opposite to what CEO would like to make believe. He reviews some evidences chronologically about the mergers and acquisitions failures from the year 1995 to 2000. And then, he stated the “real and updated” reasons for these big transactions: easy pickin's, no vision, no alternative opportunism and expediency, “me too” myopia, megalomania, top management payoff, fear and obsolete premises. Nevertheless, the third part of Harari’s article includes a brief description of what he calls the “5 T’s”. He proposes that an acquisition that meets the “5 T’s” standards is a good one to take into consideration seriously and that it will meet the effective strategies of the merger and acquisition in the New Economy: Talent, Technology, Time, Titillation and Tomorrow.

3. 2. The concept of the corporate culture.

As our study is focused on the importance and influence of the corporate culture, it is natural to continue the literature review by introducing the definitions and concepts of the corporate culture. Indeed, the organizational culture has been defined by many authors in different ways.

First, Edgar Schein (1992) gives a clear definition of the corporate culture: “a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (pp. 16-17). Moreover, he defines the corporate culture by dividing it into three levels:

- At the first level of Schein's model there are the organizational attributes. This level includes the facilities, offices, furniture, visible rewards, the dress code, and how the persons apparently interact with each other and with the external members. Those elements of the culture are easily discerned but hard to understand.

- The second level includes the espoused values. At this level, there are the company slogans, mission and, internal and personal values that are extensively expressed within the organization. This level contains the strategies, goals and philosophies of the organization.

- At the third and deepest level we can find the organization's tacit assumptions and values. These are the elements of culture that are invisible and not “cognitively identified”
between the organizational members. Additionally, these are the elements of culture that are usually taboo to discuss. Many of these “unspoken rules” exist without the awareness of the membership.

However, according to Schein, we can make statements about culture but not culture in its entirety.

In Shein’s other book, “The Corporate Culture Survival Guide”, (1999), the author pinpoints the culture change in action when two different cultures meet in a merger or acquisition context.

In their classic book, “Corporate Cultures: The Rites and Rituals of Corporate Life,” Terrence Deal and Allan Kennedy (1982) propose one of the first models of organizational culture. According to them, the notion of corporate culture is broadly accepted as important as a business concept or financial control and employee satisfaction. Indeed, in this model, they incorporate five elements in the corporate culture:

1. The business environment - the orientation of the organizations within this environment which influence the cultural style.
2. Values - are in the centre of the corporate culture. They are build up from the key beliefs and concepts shared by the employees.
3. Heroes – they are the personifications of the organization's values; they represents the role model in order to conduct the employees to the success.
4. Rites and rituals - ceremonies and rituals that reinforce the culture (sales conferences, product launches, employee birthday celebrations ...)
5. The cultural network - stories and gossip which spread information about the valued behaviour within the organization.

Geert Hofstede, author of the book “Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations: Comparing Values, Behaviours, Institutions and Organizations Across Nations” (2001), describes the results of his study of national cultures in the workplace, conducted on the IBM employees worldwide. Hofstede defines culture as ‘the collective programming of the mind which distinguishes the members of one group or category of people from another’ (p. 9). The Hofstede Cultural Orientation Model has been developed in order to relate the work-values with the national culture. As the author...
has suggested, the corporate culture is to some extend influenced by the national culture. He identifies 5 dimensions:

- **Power distance** - how are the status differences marked between people with high power and low power?
- **Collectivism versus individualism** - is a culture focused on individuals or groups?
- **Masculinity versus femininity** - the aggressiveness is related to masculinity. It is the level to which individual are competitive and self-confident.
- **Uncertainty avoidance** - a measure of flexibility and need for rules.
- **Short versus long term orientation** – past - oriented or future- oriented people; short- term profitability or long-term growth.

Geert Hofstede and al (1990) provide, in an article written with three other specialists, an important analysis of organizational practices. The work focused on first precising the difference between the organizational culture and the national culture and then what the authors call the six dimensions that separate and define organizational cultures: the essential issues are how the organization cope with the interpersonal relations and power.

1. **Process oriented versus results oriented.** The Process cultures emphasize on low risk and repeating well-known methods and the results orientations focus on taking risks and finding new methods.
2. **Employee oriented versus job oriented.** This is the “personal/impersonal” workplace distinction. Employee cultures oriented make members of the organization feel personally valued and job cultures oriented are concerned by having an effective person to do the required work.
3. **Parochial versus professional.** In parochial cultures, employees identify themselves strongly with their company sometimes as a social status. Participants in professional cultures identify their skill-set and occupation more than the company they belong to.
4. **Open system versus closed system.** This dimension considers the communication. In an open system, new employees adapt quickly to the communications and social basis of the company. However, in closed systems, there is larger confidentiality and exclusion of certain members of the organization, particularly newcomers.
5. **Loose versus tight control.** Loose control cultures are informal whereby employees and management tend to be careless about the work, the schedule, and sometimes costs. Tightly controlled cultures emphasize on the formality, devotion to standards, punctuality, …

6. **Normative versus pragmatic.** Normative cultures are concerned with doing things properly from a procedural perspective, while pragmatic cultures are more competitive, market-driven, and results-oriented.

   Harrison and Carroll (2006) are specialists on cultural maintenance and transmission in organizations. In their work, they emphasize that the organization's culture is quite very static. They developed a model in order to find out why a corporate culture stays stable despite the constant change of its environment. They took into consideration an important factor that no one has emphasized on before and which really influence the culture: the demographic flow. Their research issue refer to how can a company maintain its culture while there is continual movement among employees?

### 3.3. The leadership and the corporate culture during M&A’s

Kenneth Kerber and Anthony F Buono (2005) have described three different approaches to introduce change in a company: directed change, planned change and guided changing. Each approach depends on two key factors: business complexity and socio-technical uncertainty. The first change approach reflects a quick step based on persuasion, the second, planned change, is based on the participation of the followers but sponsored at the top management and guided change tend to involve all the members of the organization. Leadership is the key success in enacting change.

   Thomas Diefenbach (2007) describes the leader’s attitudes facing the different change strategies and how “they justify, communicate, perceive and implement their change initiatives”. The author underlines the lack of communication as the main reason in the change failure. Plus, he describes thoroughly the behaviors that a leader should NOT adopt.

   Ian Smith defines nine fundamental and interconnected elements to achieve a successful organizational change; and plus, he gives the main reasons about change management failures.
Afsaneh Nahavandi and Ali R. Malekzadeh “Organizational Culture in the Management of Mergers” (1993). In their book, they first start by defining the organizational culture and discuss the role of leaders in its formation. Moreover, they describe the functions of culture and its aspects, and examine the advantages and disadvantages of strong cultures in organizational change. They define the corporate culture as "the integrated pattern of human behaviour that includes thought, speech, action, and artifacts and depends on man's capacity for learning and transmitting knowledge to succeeding generations" and "the customary beliefs, social forms, and material traits of a racial, religious, or social group" (p. 93). In the second part of the book, both authors explore the types of mergers and the reasons for the success and failure of each. In order to define “the four generic types of merger strategies”, they use the bargaining power, transfer of resources, personnel interaction, implementation time, profitability, and risk to define the different types of mergers (P.25). They go further on by exploring the relationship between strategy and culture. They introduce the main issue: “How to combine two organizations with two different cultures”. This part of the book provides answers to these questions by defining the concept of acculturation, its stages, and its different modes. The third issue concerns the leaders influence on the organizations. Therefore, they argue that leaders are one of the major sources of cultures as they create structures and set strategies. Finally, they state that leaders are the symbols of the merger and the key actors to deal with corporate cultures issue.

Michelle C. Bligh (2006), in her article “Post-merger ‘Culture Clash’: Can Cultural Leadership Lessen Casualties?”, states that post-merger cultural clashes are often the main reason for the disappointing M&A outcomes and that unfortunately poor research exists to conduct the merged organizations to a suitable cultural integration. Therefore, she underlines that the cultural leadership is the most important and influential factor in order to achieve a sustainable culture. This article includes a qualitative study exploring an analysis of the interviews with 42 post-merger employees in order to put in evidence the role of the leader during the post merger culture adaptation. The findings of the study have some implication for leaders who are desired to anticipate the post-merger culture clashes. The author in the first part presents the leadership and cultural change by using Trice and Beyer’s (1993) Elements of cultural leadership. Indeed, Trice and Beyer (1993) “specify a number of leader behaviours and characteristics that facilitate cultural innovation versus cultural maintenance” (p.399). In
addition, they further outline four variants of cultural leadership: leadership that creates, changes, embodies, or integrates cultural elements (p. 401). They consider that each type of leadership come up in response to different organizational problems “which include attracting followers and uniting them, weakening or replacing old cultural elements, keeping the existing culture vital, and reconciling the diverse interests of subcultures”. (p. 402) However, Michelle C. Bligh arise the issue of the “simultaneity”. Indeed, little attention has been paid by Trice and Beyer to the leadership contexts in which several or all of these problems must be faced simultaneously. She suggests that effective post-merger leadership cultural integration necessitate the involvement of the four cultural leadership variants “as leaders seek to establish new cultural elements (leadership that creates), facilitate the integration of both existing and new values into the merging culture (leadership that integrates), modify some existing cultural values (leadership that changes), while at the same time supporting and reinforcing new cultural values (leadership that embodies)” (p. 404). The second part of the article deals with the case study: a large Northeastern healthcare system that went through a full-scale merger involving over 12,000 employees in four large hospitals and seven smaller facilities.

Douglas D. Ross, Managing Director, Square Peg International Ltd (2005) is the author of the article “Culture Management in Mergers & Acquisitions. A focus on culture and people is critical to make integration strategies work”. The author was invited to speak to the Telecom Finance Conference in London, Creating Value through M&A, about managing cultural transition issues in M&As (mergers and acquisitions) and joint venture situations. During this discussion, the author emphasized that management from the acquiring company usually is unprepared to deal with post-merger politics that can lead to a reduction of the outcomes, the cause are the underestimation of the culture integration challenges or the human factor. So in order to tackle directly with the cultural factors, the author stressed the importance to develop an “integration plan”. In this plan, advices are given to the leaders to constitute and implement a new corporate culture. Indeed, once the new organisation knows what it wants to be, aligns its systems, processes and procedures to reinforce the desired culture, the next stage is the most difficult one; it concerns the alignment of the employees and leadership team with the new culture. So, according to Douglas D. Ross once the culture is defined it is important to:

1. Obtain individual buy-in from leaders
2. Address the “me” issues
3. Identify integration risk factors
4. Avoid deadly sins of M&A’s
5. Learn from best practices

He concluded his article by pointing out that “the time to make change is limited but the way in which cultural integration is handled will make the difference between success and failure of the deal” (p.11).

“The Impact of Culture on Mergers & Acquisitions”, by Gene Gitelson, John W. Bing, Ed.D., and Lionel Laroche (2001). According to the authors, 83% of all mergers and acquisitions failed to produce positive outcomes and half of them destroyed the value. Moreover, that according to the interviews of over “100 senior executives involved in these 700 deals over a two-year period revealed that the overwhelming cause for failure "is the people and the cultural differences””. (P. 1). Therefore, they present the seven pitfalls that represent the critical areas of the M&A transaction that drive the deal to the success if the leader applies this “agenda” the first 90 days of the new organization.

- Pitfall 1: Preoccupation => Strategy: Acceleration: leaders are advised to speed the integration to reduce the uncertainty and anxiety. In the case of international M&A’s, he or she has to ensure that both individual and collective concerns are addressed. Indeed, studies indicate that employees and managers at all levels lose a minimum of 15% of personal effectiveness as a result of rumors, misinformation, and worry. They also indicate that teams tend to become less effective during mergers and acquisitions.

- Pitfall 2: List-making => Strategy: Concentration: during the first 90 days, the leader has to focus and get everyone to focus “on the 20% of the goals that yield 80% of the economic value”.

- Pitfall 3: Organizational proliferation => Strategy: Accelerate, concentrate and adapt: the leader must create quick-acting teams that include people from both side of the merged companies and set clear mission. Clear and strong leadership are essential not to break down the new organization in sub-teams.

- Pitfall 4: Infrequent and irrelevant communication => Strategy: Accelerate, concentrate and adapt: over communication is the key success to get the message received by the employees. As for example, a frequent communication repeated at least 7 times through multiple avenues - print, voice mail, e-mail, meetings, and video.
Pitfall 5: Triangulation (confusion in old and new goals and objectives) =>
**Strategy:** Concentrate and adapt: the leader must help people to adapt to the new goals and objectives by dispatching information which depend on people’s cultural background.

Pitfall 6: The relatives => **Strategy:** to adapt: time is relative, the leaders started their adaptation to the new reality before those who got to know about the merger on the announcement day. They wonder about why people don't seem to "get it" and for resist to the new realities. Plus, the concept of time is also related to culture. While long-term in North America tends to mean three years, it means up to 30 years in Japan. So, the leaders have to actively handle the merger across time, space and organizations, keeping in mind the different concepts of time and space perceived by the different people involved in the merger.

Pitfall 7: The guiding light: **Strategy => Adapt:** the first role of the leader is to implement a clear vision. However, a good leader requires different skills and attributes like charisma and positive attitude. Only a new culture can create the context for real change to happen. Changing culture means changing behavior. But “one of the quickest way to effect change and create the new company is to place in all key positions those individuals who are true representatives of the new culture and who can lead effectively people on both side of the company's cultural divide”(p. 4).

On the other hand, Marie H. Kavanagh and Neal M. Ashkanasy (2006) report the role of the leader in the change management process and the right management strategies to adopt during a merger. Moreover, they give an understanding of how effective leaders should convey the new changes, their impact on the new corporate culture and sub, consequently how the members will perceive and respond to that cultural change.

Gregory Millman, argues in his article, “Corporate culture, a myth or a reality?”, that most researches suggest that the corporate culture can not be changed because the change process is “over-circulated” and may be counterproductive. Moreover, he states that costly mistakes happen because executives do not understand how “intractable” the corporate culture is. He cites Edgar Schein: “Culture is damn near impossible to change.” John Kotter, Konosuke Matsushita Professor of Leadership, Emeritus, at Harvard Business School, also suggests that much talk of culture change is nonsense”. However, misunderstanding culture can be costly in the merger and acquisitions context. He emphasizes on Daimler- Chrysler case. According to the author, such failures in cross-border M & A are more the norm than the exception. The
corporate culture is the main reason but leaders have to take into consideration the national culture as it's hard to separate them. Indeed, people have included the values of their national cultures when they attain the age of 10. So when we enter in the business world, we do what make sense to us according to our national culture. Nevertheless, cultural mismatches may also happen in the same national companies. The main argument of the author is that the corporate culture takes time to be developed within a company so he can not imagine how hard it is to change it after a while.

Wayne Reschke & Ray Aldag (2000) define the corporate culture, its key components and effectiveness. Additionally, their study discusses the following issues: why the merging companies should be engaged in an intentional cultural change? And how does an organization change its culture?

Kent Rhodes (2004), “Merging Successfully: The importance of understanding organizational culture in mergers and acquisitions”. When companies merge or go through an acquisition, “the lack of a cohesive culture in the newly merged company can break a deal” (p.1). Indeed, according to Rhodes the corporate culture is often the critical factor in the eventual success or failure of the overall merger deal. He presents seven concepts by borrowing terms from diverse disciplines that helps to examine the specific origins of culture that are common to each organization. Each of “the cultural cohesion classifications” suggests implications for effective merger and acquisition cultural integration. Following are seven of the most important of these concepts:

- **Metallurgy**: “Metallurgy describes the structures and properties of metal, the way it is extracted from the ground and is refined, and the various means of creating things from it. When describing organizations, the term refers to a system of processes and procedures that occurs in all organizations and that creates specific cultural traits around the ways people approach their work on a day-to-day basis”(p. 2). So, managers involved in mergers or acquisitions might not want to rush to replace these practices.

- **Mythology**: “Mythology is the group of stories, ideas, or beliefs that become a part of an organization”(p.2). During the process of mergers and acquisitions (M&A) integration, managers should identify organizational myths which are represented by the stories, ideas, or beliefs that become a part of an organization. Plus, these stories are not necessarily based on facts; they usually “reflect historical accounts of greatness or tragedy “ (Ibid).
- Missiology: “Missiology is the process of persuading others to accept or join a belief, cause, or movement” (p. 3). Most organizations have a tacit process through which they will integrate the new employees or not, depending on the unspoken practices of the organization. Managers who integrate the new talent into the new merged organization have a significant advantage because they will be involved in the value creation.

- Meritocracy: “A meritocratic system gives opportunities and advantages to people on the basis of their contributions and abilities rather than on the basis of their job longevity, connections, status, or other such attributes” (p. 3). For an effective M&A integration, it includes to address the ways in which individuals’ contributions are recognized and valued. Managers should take into consideration the traditions and systems for advancement and reward which are present in both organizations before the merger. These differences could have an impact on the employees, they can resist to the new organization or accept to put efforts within it.

- Modality: “Modality is a treatment or strategy applied to a specific disorder or circumstance that needs improvement” (p. 4). Within an organization, people can develop some real treatments that represent an impressive “medicine chest” to overcome the dysfunctional behaviours or problems that can occur within the organization. Those specific remedies have to be identified and evaluated by the managers in order to bring value to the acquisition and integrate them into the new organization.

- Mores: “Mores are customs and habitual practices, especially as they reflect moral and ethical standards that a particular group of people accept and follow” (p. 5). The implications for effective M&A integration include paying attention to the ways ethics is practiced in the organization: Managers should identify the mores of each organization and the ways in which they can be effectively shared across organizations. Furthermore, they should formulate strategies to equalize mores between organizations by advancing a “best of” approach to mores and ethics development in the new organization.

- Mettle: “Mettle - the courage, spirit, or strength of character of a group within an organization or the particular mental and emotional character unique to an individual. The extent to which individuals pay attention to their own spiritual development or are encouraged by the organization to develop mettle can result in an important cultural value” (p. 5). Effective M&A integration suggests that managers should look closely at ways that individuals show
their mettle by sharing concerns and practicing respect for others within the organization. Enhancing and supporting these behaviours is critical for the organization success.

Mridu Singh (2005) “Post – Merger culture shock”: “Clash in two organisational cultures post-merger might lead to rivalry between employees of the two organisations and hostile ‘us-them’ attitudes, adversely affecting the merged entity in the long run” (p. 1). According to the author, the culture is unique to each organization and it includes “the values, principles, belief, attitudes as well as the behavior of an organization that is reflected in the way things are done. An organization’s culture also shapes its learning orientation” (p.2). In short, the culture can be considered as the personality of the company. Moreover, the author gives some insights regarding the merger culture shock: when two organizations merge, often the acquiring company imposes its own culture, strategies and values without taking into consideration if the acquired culture will not be more suitable for the new formed organization. The consequences are the resentment and the rivalry among the employees. The major issue during a merger or an acquisition is that executives do not pay attention to the key human factor. Indeed, very few organizations gather information regarding culture, leadership, organizational capabilities, and customers. Lack of key leadership skills or a major culture misfit can destroy the financial benefits originally planned. Moreover, rivalry among employee groups can seriously damage the organization functionality. According to the author the managers should try to clear up the differences by carefully mixing employees as much as possible at all organizational levels. It is easy to say but it can help the marriage to work. Therefore, while the merger is still at the initial stage, leaders have to pay attention to the work force, their views, and whether the organizational cultures can stay static or not. Plus, in order to reduce the possibilities of failure in M&As, some management experts have recommended that human capital have to be placed at the centre of the process, or at least be given equal attention to that given to economic and financial matters.

Anna Zueva and Pervez Ghauri (2007) discuss the post-M&A organisational cultural change. They analyse how the acquiring company’s managers consider the cultural change in the acquired company and which factors are taken into consideration to avoid resistance from the acquired company. Also, the study focuses on “subjective sense-making and attitudes of acquired company’s members” which is rare given the fact that most research study focus on the acquiring company’s ones.
So far, the basics concepts described in the literature reviews will be studied, explored and hopefully modified by us in the course of more in-depth and thorough research. As a result towards the end of our research we will have our concept worked out and will need to verify it against the statistical data, to see whether it is relevant to our research topic or not.
### 3.4. Matrix of literature review

<table>
<thead>
<tr>
<th>Perspectives Authors</th>
<th>M&amp;A</th>
<th>Corporate culture</th>
<th>Leadership Post-M&amp;A Integ.</th>
</tr>
</thead>
</table>
| Gaughan P.           | - M&A history: 5 waves  
- Types of merger:  
  - Horizontal  
  - vertical  
  - conglomerate  
- Merger strategy:  
  - growth  
  - synergy  
  - operating strateg.  
  - diversification  
  - other motives  
  - Hostile Takeover | | | |
| Finch H.             | - Definition of merger, acquisition and takeover  
- Motivations:  
  - economies of scale  
  - economies of vertical integration  
  - greater market share  
  - excess cash balances  
  - presence in unused tax shields  
  - lower financing costs  
  - to boost the earnings per share | | | |
| Chunlai & Findlay    | - distinction between M&A:  
  - merger by absorption  
  - merger by establishment  
  - asset acquisition  
  - share acquisition | | | |
- 3 types of M&A:
  - horizontal
  - vertical
  - conglomerate
- OLI paradigm: motivations and factors for M&A

| Harari O. | “M&A are ineffective strategy”
| - evidences from 1995 to 2000
| - present the “real reasons” for merger mania | - effective acquisitions strategies: the “5T’s” |

Comments: the first part of our theoretical framework is constituted by the M&A perspective. As the M&A is a worldwide phenomenon which is in a continual expenditure, it is important to be aware of the history of that field by understanding the different trends of the M&A area. Then, the definitions, types and methods of M&A constitute the next point. Several authors are listed in order to explore different point of views. Thirdly, the motivations for M&A are different from an author to another. Indeed, it is important to stress them as they are the key source which labels a M&A as a failure or a success.

| Schein E. | 1) – Definition
| - The c.c. has three levels:
| - the organizational attributes
| - the espoused values
| - organisation’s tacit assumptions and values
| 2) – What is the corporate culture
| - why the corporate culture is important
| - In order to combine 2 post-merger cultures, there are 3 possible patterns:
| - separation
| - domination
| - blending | - present a corporate culture model |

| Terrence & Kennedy | - present a corporate culture model |
|                  |                      | through 5 elements: | Hofstede G. | - 5 dimensions of the national culture  
- 6 dimensions to define the corporate culture (emphasize on parochial vs professional) |
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</thead>
<tbody>
<tr>
<td>Harrison &amp; Carrol</td>
<td></td>
<td>The study focus on how the corporate culture is transmitted and how the corporate can be stable taking into consideration the “demographic flow”</td>
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</table>

Comments: in order to make the corporate culture tangible, several definitions are taken into consideration (Hofstede, Schein, Terrence & Kennedy). Also, as the corporate culture is influenced by the national culture, we will emphasize on the interaction between both national and corporate culture. Plus, the demographic flow factor is not a common factor that has been studied regarding the corporate culture. Indeed, there are continual movements among employees but the corporate culture stay stable. It will explain how a corporate culture (usually from the acquiring company) can persist even though the merger happened. This part of the theoretical framework will answer to questions such as what is exactly the corporate culture? Why is it important? Which will lead to our topic the influence and the importance of the corporate culture in a M&A context.

| Buono & Kerber  | - Present 3 different approaches in order to implement change in a company:  
- directed change  
- planned change  
- guided change |                                                      |                                                      |                                                      |
|-----------------|---------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Diefenbach T.   | - Describes:  
- the common attitudes of the leader facing the different change strategies  
- which         |                                                      |                                                      |                                                      |
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Contributions</th>
<th>Behaviours the leaders should not adopt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith I.</td>
<td>- present 9 elements that leaders have to take into consideration in order to achieve a successful organizational change</td>
<td></td>
</tr>
<tr>
<td>Nahavandi &amp; Malikzadeh</td>
<td>- types of merger: the 4 generic types of merger strategies</td>
<td>- Role of the leader in the c.c. formation</td>
</tr>
<tr>
<td></td>
<td>- Reasons for success and failures</td>
<td>- How to combine 2 different cultures after a merger? : the acculturation (stages and modes)</td>
</tr>
<tr>
<td></td>
<td>- definition, aspects and functions of the c.c.</td>
<td>- Key actor: Leader</td>
</tr>
<tr>
<td>Bligh M.</td>
<td></td>
<td>- cultural leadership: describe the role of the leader during the post-merger culture integration</td>
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<td></td>
<td></td>
<td>- how to anticipate the culture clash</td>
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<tr>
<td></td>
<td></td>
<td>- cultural leadership; Trice and Beyer’ concept: leadership that creates, integrates, changes and embodies</td>
</tr>
<tr>
<td>Douglas R.</td>
<td></td>
<td>- present an “integration plan” in order to tackle with the corporate culture integration process during a M&amp;A</td>
</tr>
<tr>
<td>Gitelson J., Bing, Ed.D., and Laroche, L.</td>
<td></td>
<td>- describe 7 strategies to implement and conduct a successful</td>
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</table>

Comments: Those three authors give insight regarding the strategies or approaches that the leaders should adopt while they are facing change management in general. We will theoretically describe the role and behaviours of the leader from the general to the point that is the corporate culture change management in a M&A context.
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>M&amp;A c.c integration</th>
<th>Role of the Leader in Change Management Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kavanagh M. &amp; Ashkanasy N.</td>
<td>- describe the role of the leader in the change management context - stress the effective strategies to convey the new c.c. in the M&amp;A context</td>
<td></td>
</tr>
<tr>
<td>Millman G.</td>
<td>- The c.c. reflects the national culture - the c.c. is hard to change</td>
<td></td>
</tr>
<tr>
<td>Reschke W. &amp; Ray A.</td>
<td>- Definition and components of the c.c. - How to change the c.c. within an organization after the merger</td>
<td></td>
</tr>
<tr>
<td>Rhodes K.</td>
<td>- Identify 7 concepts (metaphor) of c.c. that are common to each organization - For each concept, the author stress the strategies that the leader should adopt during the post-merger c.c. integration process</td>
<td></td>
</tr>
<tr>
<td>Singh M.</td>
<td>- Leaders have to pay attention to the human factor and also to the rivalry among employees group</td>
<td></td>
</tr>
<tr>
<td>Zueva G.</td>
<td>- the study focus on the acquired company’s members - Analyse how the managers of the acquiring company consider the cultural changes in the acquired company</td>
<td></td>
</tr>
</tbody>
</table>

The third part is related directly to our research question: what is the role and strategies that the leader should adopt in order to achieve successful corporate culture integration in a M&A context. The major field that is studied is the role of the leader in implementation the corporate culture. Different concepts are explored: the acculturation, Trice and Beyer concept, Douglas’s “integration plan” plus other strategies compiled by the authors.
Chapter 4: Theoretical framework

4.1. Mergers and acquisitions concept

As the mergers and acquisitions constitute the context of our study, it is primordial to understand how these activities happen, the different types and models of M&A and finally the motivations which lead the companies to merge with another one or to acquire some others companies. However, before tackling those different sections, we would like to provide an overview of the M&A history in order to understand the expenditures of these phenomena.

4.1.1. Mergers and acquisitions expenditures

Mergers and acquisitions have taken place in history in the last 100 years or more in waves in the USA but more recently in Europe continental (Sudarsanam, 2003). There are exactly five periods or waves of high merger activity that characterize the trends in the current M&A history. Wave “is a phenomenon which occurs in bursts interspersed with relative inactivity” (Ibid, p. 13). According to the research, the five waves are caused by an alteration between economic, regulatory and technological shocks. The economic shock refers to the economic expansion that pushes the companies to expand their activities in order to meet the fast growth within the economy. Regulatory shock happens with the elimination of regulatory barriers and technological shock comes from the drastic change that occurs within each industry (Mitchell, 1996 in gaughan P29). Also, some of the firms may be the first movers while others may be the”me-too” followers. Each wave is differentiated by high levels of mergers followed by a serious decrease of the deals (Gaughan, 2007). We will give first an overview of what the American business structure has experienced and then the European side.

First wave 1897-1904: merging for monopoly

The first peak of the first merger wave was reached during a period of economic expansion right after the Depression of 1883; between 1898 and 1902. This wave involved mainly the major mining and manufacturing industries but also 15% of all manufacturing assets and workers (Gaughan, 2007). According to Professor Ralph Nelson, eight industries
have experienced the greatest merger in history during this first wave; they were concerned by primary metals, food products, petroleum products, chemicals, transportation equipment, fabricated metal products machinery and bituminous coal activities (Nelson, 1959 in gaug). Therefore, this wave was principally characterized by horizontal combinations and simultaneous consolidation of the producers within the industry that resulted to a “monopolistic market structure” (Ibid). Also, this period is associated with the creation of “the giants of the US corporate world such as General Electric, Eastman Kodak, Standard oil, American Can Tobacco and Dupont” (Sudarsanam, 2003, p. 14). For example, American Tobacco had a market share of 90% and at the same time Standard Oil was enjoying an 85% market share (Gaughan, 2007). Out of the 93 consolidations which happened between 1897 and 1904, 72 controlled at least 40% of the market share and 42 controlled at least 70% of their industries. Therefore, the first wave can be described as wave of mergers for monopoly.

**Second wave 1916-1929: merging for oligopoly**

The impact of the second wave was smaller than the first. The reasons are the World War I and the reinforcement of the antitrust laws. The congress became aware and concerned by the abuses and the power exercised by the monopolies companies. Indeed, the US Supreme Court had even declared some of the market monopolies illegal; for example, the government ordered the break-up of the Rockefeller Empire (Standard Oil) that was build during the first merger wave (Sudarsanam, 2003). Thus, the result of the monopolies created during the “merging for monopoly period” became finally an oligopolistic industry structure, the second merger wave turned to be the wave of the oligopolies. However, the economy continued its development and evolvement thanks to the post-World War I economic boom which provided to the companies to invest in vertical or conglomerate transactions (Gaughan, 2007). Just as the first wave showed its powerful monopolies, the second wave was also the reflect of many major corporations that are still in place today: General Motors, IBM, John Deere and the Union Carbide Corporation (Ibid). Nevertheless, the second wave collapsed with the stock market crash in 1929 and it has been even worst with the world-wide depression in the next four years. Moreover, many of the holdings created in the previous and recent wave turned into bankruptcy (Sudarsanam, 2003).
Third wave 1965-1971: merging for growth

The third wave is characterized by the willing of growth and featured a highest level of mergers than both previous waves. This wave is also known for being the conglomerate merger period. The FTC reported that “80% of the mergers that took place during 1965 and 1975 were conglomerate mergers” (FTC, 1977). Plus, it was common that smaller companies were targeting larger companies for acquisition which was the opposite during the previous waves. Also, the aim of the conglomerates during the third wave was to achieve growth through diversification into new product (Sudarsanam, 2003). However, this period did not involve large mergers or acquisitions primarily because of the more intense antitrust environment on horizontal and vertical mergers that became even stricter than before. Some examples of well-known conglomerates are Ling-Temco-Vought (LTV), Litton industries and ITT. This last company acquired in the 1960s “such diverse businesses as Avis Rent a Car, Sheraton Hotels, Continental Baking, and other far-flung enterprises such as restaurant chains, consumer credit cards, home building companies and airport parking firms” (Gaughan, 2007, p. 40). However, there was a small impact on the market structure such as the industrial concentration or the degree of competition opposed to the first wave (Ibid). According to Gaughan (2007) the decline of the third wave coincided with the announcement by Litton in 1968; he declared that its quarterly earnings declined for the first time. Also, the second reason is the announcement of Attorney General Richard McLaren to break down the conglomerates mania which was according to him an anticompetitive approach. On the other hand, Sudarsanam (2003) argues that the decline is the consequence of the oil crisis provoked by the Organization of Petroleum Exporting Countries (OPEC) which created a great dislocation in 1973 with the following of the “inflationary spiral and economic slowdown” (p. 16).

Fourth wave 1984-1989

The pace of mergers slowed since 1971 and then a strong merger wave started again in 1984. One of the characteristic of the fourth wave is the principally the hostile mergers which can also be considered as friendly which is usually determinate by the reaction of the target company (Gaughan, 2007). The second feature includes “the size and the prominence of the merger and acquisition targets: it was the wave of the megamerger, the billion-dollar M&As”
The mergers were concerned mainly with the oil and gas industry, in one hand, and the drugs and medical equipment, on the other hand.

According to Sudarsanam (2003, p. 17), the fourth wave can be summarized as following:

- The emergence of hostile tender offers
- The predatory bust-up takeovers
- High level of divestiture activity by diversified firms in pursuit of a strategy of focus on a narrower range of businesses in which these firms have a competitive advantages by redirecting investment to these core businesses
- A more benign antitrust regime towards related mergers than during the 1960s and 1970s
- The emergence of leveraged buyout (LBO)
- The emergence of private equity firms and LBO firms encouraging and facilitating management buyouts and going private
- The average size of the acquisitions dwarfing the corresponding size of deals in the 1960s.

However, Gaughan proposes another perspective regarding the “unique characteristics” of the fourth wave. These features are:

- The Aggressive Role of Investment Bankers: many investment banks and law firms have designed and developed products and techniques in order to finance or to prevent the takeovers.
- Increase Sophistication of Takeover Strategies: while the defensive strategies were settled in place with active and preventive antitakeover measures, the offensive strategies were becoming ever more creative.
- More Aggressive Use of Debt: the megamergers were usually financed by important amount of debt. Also through the use of LBO’s, many public companies were taken to become private.
- Legal and Political Strategies: there were conflicts between the federal and the state government. Some state governments were able to make pass some laws against the takeover activities which were considered by the federal as a violation of the interstate business.
- International takeovers: U.S companies were engaged in transatlantic acquisitions while the Japanese or European companies were involved in some U.S acquisitions as the dollar falls against their currencies.

- Role of Deregulation: a number of industries were deregulated during the fourth wave such as the air transport, natural gas, broadcasting etc. Nevertheless, the end of the fourth wave emerged with the overall slowdown of the economy in 1990. But also, the collapse of the junk bond market, which was the financial source of the LBOs during that period, was a major cause of the fourth wave end.

Fifth wave

The fifth wave started in 1992 when the number of M&A started to increase again. As in the fourth wave, many large megamerger took place; however fewer were hostile takeover but they were based on more specific strategies that the internal expansion could not offer. Also, they were financed by the “increased use of equity” in contrast of the fourth merger LBOs (Gaughan, 2007). The activities which were sharing 26.5% of the total dollar volume are the banking, finance, communications and broadcasting. Moreover, the fifth wave can be labeled “the mother of all waves so far” (Sudarsanam, 2003, p. 18) because of its enormous proportions. The value of the M&A deals was in 2000 $1.8 trillions compare to the peak of 1989 of $324bn. Furthermore, the globalization of services, product and capital markets enhanced the expansion of the M&A. The emergence of new technologies like Internet or satellite communication has created new industries and new technological capabilities (Ibid) which tended to generate M&A opportunities. Also, throughout the fifth wave, a new type of acquirer became important: the emerging market bidder. This observable fact creates acquiring companies which are built up through the acquisition of privatized business and consolidations of smaller competitors (Gaughan, 2007). An example of this trend is Mittal which practiced M&A activities all around the world. And in 2006, it has successfully acquired through a hostile bid the second largest steel company: Arcelor. Other examples are IBM’s PC business by China’s Lenovo or in 2005 the $12billion acquisition of the Italian Wind Telecommunications by Egyptian billionaire Naguid Sawiris (Ibid, p. 66). Therefore, we can state that the M&A activities have truly becoming a worldwide phenomena within a
globalized field where the acquiring companies come from developed countries but also from companies coming from the emerging markets with important worldwide market shares.

**European Waves**

According to Sudarsanam (2003), the huge takeover wave started in Europe at the same time than in U.S. Indeed, since 1984, Europe has experienced increasing audacious takeover activities represented by two different waves; from 1987 to 1992 and from 1995 to 2001. The first wave accounted for $40bn in 1987 and attained its peak in 1992 with $175bn. The second wave was bigger than the previous one, the value of mergers during that period rose to $1129bn in 1998 before an abrupt decline to $439bn in 2001. During this period, the value of deals in Europe was as large as in the U.S market. Within Europe, the countries active in the M&A strategies were UK (31% of all EU deals), Germany (16%), France (14%) the Netherlands (7%) and Italy (6%) (Sudarsanam, 2003). The largest acquisition in the European business history was the hostile acquisition launched by UK mobile telephone company Vodafone to take over Mannesmann, the German telecom company for more than $150bn in 1999. There are numerous reasons for this large M&A expenditures. First, the Cold War ended and the Berlin Wall collapsed. Then several initiatives have been adopted by the European countries in order to increase the competitiveness: the Single Market initiative in 1992 adopting free markets and private companies, and the Single currency Euro in 1999.

This section has described the five main waves of intense merger activities in order to introduce the next part of the thesis and to obtain an in depth understanding of the particularities of this evolving phenomenon which is M&A.

4.1.2. Types and methods of mergers and acquisitions

**Definition**

Sudarsanam (2003) define the mergers and acquisitions as “the transactions of great significance, not only to the companies themselves but also to many other constituencies, such as workers, managers, competitors, communities and the economy, whereby “two companies
are combined to achieve certain strategic and business objectives (p. 1). This general definition of M&A gives a significant overview about where these activities have real impacts.

However, more specifically, Gaughan (2007) focuses on the merger status. Indeed, the author states that a merger is “a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger the acquiring company assumes the assets and liabilities of the merged company” (p. 12). In this definition, the author refers to the merger as an acquisition, both terms here are ambiguous. Nevertheless, this description of merger is sometimes related to the term statutory merger which differs from the subsidiary merger. This kind of business transaction combines two companies in which the target company turns into a subsidiary of the “parent company”. Then, the author differentiates the merger from the consolidation which combines two or more companies in order to form a wholly new company.

Chunlai and Findlay (2001) add that “mergers often require the approval of both the acquiring and target firm’s shareholders and the acquiring firm” (p. 23). Both authors go further by setting a clear distinction between merger and acquisition. First, they argue that there are two forms of mergers: “merger by absorption” whereby “one company absorbs one or more companies that are dissolved”; and “merger by establishment” whereby two or more companies are merged into a newly created company and the parties to the merger are dissolved (p. 24). In other words, the target company is not considered as a separate entity anymore. On the other hand, the acquisition can take two forms: the asset and the share acquisitions. They refer to the asset acquisition as the transaction where the acquiring company “purchases part or all of the assets of the target. The target remains legally in existence after the transaction, although it may be liquidated after a major asset sale to return money to the shareholders. The transaction is normally executed by the management of both the target and the acquiring firms” (p. 24). A share acquisition is the activity whereby the acquiring company buys shares in the target company from individual shareholders. “If the company shares are privately held, the acquirer can deal with the private owners individually. If the share of the target is publicly held, the acquiring firm may have to deal with a large group of disorganised shareholders’ (pp. 24-25), as it was the case with the acquisition of Arcelor by Mittal. Finally, the acquisitions can be labelled as full (100% of interest), majority (between 50-90 %) and
minority (between 10 and 49%) while the acquisition of less than 10% are considered as portfolio investment.

Another term which is broadly employed within merger discussions is “takeover”. To some authors, this notion is only used to refer to hostile transactions and sometimes to both hostile and friendly merger.

According to Finch (2005), a merger involves two companies that have decided together to combine into a single entity. In contrast, an acquisition takes place when one company is taking over another company. “While the motivations may differ, the essential feature of both mergers and acquisitions involves one firm emerging where once there existed two firms” (p. 1). Concerning the takeover, the author argues that the difference rests in the attitude of the current targeted board management. Indeed, a “so-called friendly takeover is often a euphemism for a merger. A hostile takeover refers to unwanted advances by outsiders, acquisition” (Ibid). Thus, the reaction of the targeted management to the offer from another firm “tends to be the main influence on whether the resulting activities are labeled friendly or hostile”. The hostile takeover is implemented against the wishes of the targeted company and the board would reject the offer. In the friendly takeover context, the board will accept the bid.

To conclude with the definition of M&A, Sudarsanam (2003) makes a distinction between merger and acquisition by adopting an accounting perspective. In fact, according to the International Accounting Standard (IAS), the term “purchase” is related to acquisition and “uniting of interests” refers to the merger activity. Moreover, the IAS 22 states that “an acquisition is a business combination in which one of the enterprises involved, the acquirer, obtains control over the net assets and operations of another enterprise, the acquiree, in exchange for transfer of assets, incurrence of a liability or issue of equity” (p. 362). “A uniting of interests” is a combination in which the shareholders of two enterprises control over the net assets and operations of those enterprises and continue to share in the risks and benefits attaching to the combined entity” (Ibid). Put differently, the acquisition is the action whereby the acquiring company purchases the interests of the acquired company’s shareholders and ceases to have any interest right after the acquisition. While in the merger context, both companies “pool” their interests which means that the shareholders of both companies have still in their portfolio interests from their company but also get interests in the other enterprise. We can see this phenomenon in the second case study: Cloetta Fazer. Additionally, the author
argues that in common parlance, the term takeover is related to acquisition where a company is acknowledged as the dominant partner. However, in the “uniting of interests” process, a partner can be identified as an acquirer; he named this business transaction: a merger of equals. The latter “may often hide, behind its warm and sentimental semantics, a skewed power structure with clearly discernible acquirer and the acquired” (Ibid, p. 487). Thus, in reality the deal is a takeover rather than a merger of equals. Thus, in reality the deal is a takeover rather than a merger of equals which may cause “embarrassment, distraction, shareholders complaints and make the post-merger integration more difficult” (Ibid). This point will be illustrated through the first case study: Daimler-Chrysler.

**Types and methods of M&A**

Mergers and acquisitions are usually classified as horizontal, vertical or conglomerate. The horizontal merger or acquisition involves companies which are competing in the same industry and allow the new merged company to increase its power on the market (Gaughan, 2007; Chunlai and al, 2001). Recently, this type of combination has grown rapidly due to the technological change and liberalisation. The companies which tend to implement M&A activities are “the pharmaceuticals, automobiles, petroleum industries and several services industries” (Chunlai and al, 2001, p. 11). Some examples of horizontal integrations are Exxon and Mobil which were combined in a $78,9 billion deal in 1998 or Adidas-Reebok in 2005.

The vertical M&A comprehend companies that have a client-supplier relationship. In general, the goal of the companies is to reduce the transaction costs in “forward and backward linkages in the production chain and to benefit from economies of scope” (Ibid). A good example of vertical integration is the final electronics provider and the automobile manufacturer. In the pharmaceutical industry, we can cite Merck, the largest drug company in the world and Medco, the largest marketer of discount prescription medicines, which merged in 1993 for $6 billion.

In contrast to the vertical and horizontal integration, the conglomerate M&A does not take place between competitors or buyers-sellers but with companies which have unconnected activities. The aim of the conglomerate is to seek for the diversification in order to enter on other lines of businesses. A classical example of the conglomerate merger is the Philip Morris
case (Tobacco Company) now called Altria. It acquired General Foods in 1985, Kraft in 1988 and Nabisco in 2000. The reason is that the U.S tobacco industry was declining and the company decided to turn into a food business rather than a domestic tobacco company.

Alternative options of M&A

There are some other options of mergers and acquisitions. For example, through a Strategic Alliance, at least two companies decide to combine a certain number of assets in order to carry out a specific business project. The difference with M&As is that the duration is limited and the companies involved keep their own and apart business entity. Their organizations remain independent (S, 2003).

Another alternative option is the joint venture. It is a close notion to the strategic alliance but in this case a joint entity is created. Both (or more) parent management will exercise control over the ventures’ activities and will be concern by the profit and/or the losses according to the formal agreement. This will notify to which extend the partners are involved. (Gaughan, 2007).

4.1.3. Motivation of mergers and acquisitions’ emergence

There are many motives of mergers and acquisitions and vary from deal to deal. However, one of the fundamental motives for M&A is growth (Schweiger, 2002; Gaugan, 2007). Growth can be managed through internal extension but firms are conscious that M&As are a faster process to attain their expansion. Also, in order to expand within its own industry, companies will not see the internal growth as the best alternative because competitors may react rapidly and will then take higher market share. Also, in order to emerge into new markets of other nations, M&A are a useful mean to growth worldwide by merging together with an existing partner in these particular geographical markets.

There are other several motives or reasons that engage firms into M&A. The most common reasons for companies to launch M&A strategies are the following:
1. To achieve **economies of scale** (Shelton and al., 2003; Finch, 2001): the merged companies will allow producing more cheaply than if the companies were separated. The average cost will decrease due to the growing number of output units produced.

2. To achieve **economies of horizontal integration** in order to increase profitability and market share (Cartwright & Cooper, 1993). Thus, it may result to powerful market position and to reduction of the competition. **Diversification**: means growing outside of the actual company’s industry through conglomerates.

3. While two companies were at different level from the value chain by merging they can achieve **economies of vertical integration**: the new organization can therefore take control over raw materials and channels of distribution (Finch, 2001; Gaughan, 2007). It may result in achieving competitive advantages over the competitors regarding the inputs and sales. Moreover, the new organization will reach a stronger bargaining position will be reached by reducing the communication and bargaining costs.

4. Generally, the **bargain buying** can be considered as a merger motive through these different integration processes. Indeed, the largest are the merged companies, the better is the position to increase the purchasing opportunities.

5. To take advantage on the **synergy respecting the financial math equation that shows that “2 + 2 = 5”** (Shelton et al., 2003; Gaughan, 2007). Indeed, the synergies occur when the sum of the partners is more productive and profitable than the individual components taken apart. This is generally due to the growth of revenues and the costs reductions. However, the synergy of value creation is achieved when the profit is higher than the transaction costs.

6. Tax motives are also important determinant in the M&A transaction or **“tax free exchange”** (Gaughan, 2007) or **unused tax shields** (Finch, 2001). The companies use the loss from one year of the acquired company in order to decrease the profit which is taxable the next year. “Sellers sometimes require “tax-free status” as a prerequisite of approving a deal” (Ibid, p. 165).
7. *Research and development* are important factors for the future growth of a large number of firms, especially in the pharmaceutical companies. Their competitive advantage remain in the R&D investment so by merging the budget of both R&D department, the merged companies may improve its competitiveness.

8. Gains may occur also through the “financial benefit”. If two or more small companies are combined, they can improve their access to the capital markets and to lower cost of capital (Gaughan, 2007).

9. Some companies have merged by a belief that the acquiring company can *improve the inefficient management* of the acquired resources (Gaughan, 2007).

10. An interesting non-monetary motive is *the motive of managers or “Hubris Hypothesis”*. The Hubris Hypothesis assumes that managers are motivated in seeking for acquiring other companies in order to fulfil their personal motive. According to Roll, “managers have superimposed their own valuation … and the pride of management allows them to believe that their valuation is superior to that of the market (Roll, 1986 in Gaughan, 2007). Also, by increasing their status through the media, they strengthen their fame and power which lead to higher salaries and high degree of responsibility.
4.2. The corporate culture concept

In this section we are going to describe the concept of corporate culture in order to give an answer to the research question. First of all, we want to have a deep comprehension about what the organizational culture is and how it can be identified. This chapter proposes some definitions of culture and the differences between the national and corporate culture. We will also present some models and types of corporate culture to characterise it. Finally, we will give some insights regarding the ways managers can deal with the cultural differences which represent an important challenge during the merger process.

Indeed, the organizational culture plays an important role in the outcome of M&A deals. However, cultures are complex and not certain. It is usually difficult to make it tangible. Cultures are, then, difficult to assess and integrate. Therefore, leaders can face in their work several difficulties caused by cultural differences or culture clash. In the following part we intend to define what corporate culture is and examine some important concepts that could help to comprehend culture.

4.2.1. Definition of corporate culture

Although many definitions of culture exist, the meaning differs according to the ways the concept is used. According to Nahavandi and Malekzadeh (1998), culture is the beliefs and assumption shared by members of an organization. The authors further state that the term culture is often used as if companies just have only one culture, instead most companies have more than one set of beliefs that influence the employees’ behavior within their organization.

In business the oft-quoted view is that culture is simply “the way we do things around here” (Deal and Kennedy, 1982). In fact, there are three “ways”: the way we deal with customers, the way we treat each other as employees and the way leaders and managers in the organization motivate, reward and develop people. These are the most visible attributes of corporate culture. Such aspects as how people in the organization dress, relate to one another, respond to customer queries and complaints, and talk about their performance help to discern the patterns of behaviors that make up and reinforce corporate culture.
Moreover, culture starts with leadership which is reinforced with the accumulated learning of the organizational members, and can be described as a powerful set of forces that determine human behavior. Aiman-Smith (2004) view culture as the web of tacit understandings, boundaries, common language, and shared expectations maintained over time by the members.

Ways of looking at organizational culture originally come out from the anthropology. The author proposes seven cultural aspects:

- **Historical**: Culture is social heritage, or tradition, that is passed on to future generations.
- **Behavioral**: Culture is shared, learned human behavior, a way of life.
- **Normative**: Culture is ideals, values, or rules for living.
- **Functional**: Culture is the way people solve problems of adapting to the environment and living together.
- **Mental**: Culture is a complex of ideas, or learned habits, for social control.
- **Structural**: Culture consists of patterned and interrelated ideas, symbols, or behaviors.
- **Symbolic**: Culture is based on arbitrarily assigned meanings that are shared by an organization.

In addition, the corporate culture is perceived as a make or break factor when companies merge because culture is to an organization what personality is to an individual. They can to some extend fit to each other or on the contrary to end up with a clash. So, poor consideration for the corporate culture can be a contribute factor for merger and acquisition to fail (Schraeder & Self, 2003). Similarly, Schein’s definition (1985) allows understanding the problems that can arise in M&A. He defines culture as “a pattern of basic assumptions – invented, discovered or developed by a given group as it learns to cope with problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems”. (Schein quoted by Cartwright & Cooper (1992) in Mergers and Acquisitions” The Human Factor, p. 56)
Other behavioral management writers view culture as “the way things are done”. First, Erez and Earley (1993) describe culture as a man-made part of an environment. Plus, Beaudan and Smith (2000) claim that the drivers that shape or influence culture include the organization’s history, values, shared beliefs and assumptions about the business. They quote Edgar Schein: “What really drive the culture – its essence – are the learned, shared, tacit assumptions on which people base their daily behaviors”. A corporate culture is not unlike a living organism. Indeed, just as human beings mostly do not really think about how their personalities are developed; most companies do not pay attention on examining the influences that have shaped their culture. People act out of certain culture quite easily but it is difficult to describe the roots of that culture. Each company therefore develops its own believes, values and practices that lead to success. It will then be hard for two merged firms to integrate both cultures if such basic assumptions are not identified.

Additionally, the organizational culture has a high influence on how people set personal and professional goals, carry out tasks and control assets to accomplish them. In fact, the culture of organization have an effect on the way people consciously and subconsciously think, make choices and finally the way whereby they recognize, feel and act (Look & Crawford, 2004).

Moreover, organizational culture is soft, holistic, hard to change, has a historical basis and is socially constructed. So, it may be necessary to change the environment within an organization if the culture has to be changed (Schraeder & Self, 2003). Nevertheless, organizational climate or corporate culture can be managed directly by practices such as “leadership styles, flexible structures, redesigned jobs, decentralization and developed autonomy, empowerment, human relations styles and much more” (Lees, 2003, p. 191).

Consequently, by compiling the different definitions of corporate culture, we suggest that corporate culture is seen here as the often implicit shared understandings, assumptions and beliefs held in common by an organization’s members; that guide their behaviors and understanding of the organizational environment. More specifically, it has been defined as the collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization. On the other hand, the organizational values are beliefs and ideas that lead the organizational members to the pursued. It is also perceived as the appropriate kinds or standards of behavior
that organizational members should use to achieve these goals. Furthermore, from the organizational values are developed the organizational norms, guidelines or expectations. These features prescribe and control the appropriate behaviors that employees in particular situations should adopt. Charles W. L. Hill, and Gareth R. Jones, (2001).

Finally, the corporate culture is also divided into strong culture and weak culture. Strong culture takes place in organization where staff responds to stimulus because of their alignment to organizational values. Also, strong organizational cultures are those where the core values of the dominant culture are strongly believed by the great majority of organizational members. On the contrary, weak culture exists where there is little alignment with organizational values and where the control must be exercised through extensive procedures and bureaucracy. Strong cultures in which the key values are deeply held and widely shared have a greater influence on employees than the weak cultures. The more employees accept the organization’s key values, the greater is their commitment to those values and the stronger the culture is.

4.2.2. The model of corporate culture

Schein (1985) defines the corporate culture by dividing it into three levels. His model may help to understand cultures and highlight the possible differences.

- **The first level:** Artifacts and Creations: The process of cultural assessment starts when employees see the perceived differences in their cultures. This involves the employees’ observation of the differences on the visible artifact and tangible behavior. They see the differences in structure, offices, furnishing and how the persons apparently interact with each other and with the external members. This level includes the facilities, offices, furniture, visible rewards and the dress code. Those elements of the culture are easily discerned but hard to understand.

- **The second level:** Espoused values: This level includes the company’s slogans, mission, vision and, internal and personal values that are extensively expressed within the organization. This is considered partly visible as these values could be seen. The other part that may not be seen is described as the values that are acceptable in one organization and not in another. The main difference in value is how managers proceed with the decision-making. One
organization might have a traditional and conservative business approach while the other might have quick decision makers and like to take risks.

The third level: Basic Assumptions: these assumptions are the organization’s tacit assumptions and values. These are the elements of culture that are invisible and not “cognitively identified” between the organizational members. Additionally, these are the elements of culture that are usually taboo to discuss. Many of these “unspoken rules” exist without the awareness of the membership. They are built in every day interaction in one organization but remain unknown in another. Those unconscious rules are the common roots of culture clash.

4.2.3. The types of corporate culture

Four types of organizational culture were proposed by Harrison (1972) and used in Cartwright and Cooper’ (1992) work. The differentiation is mainly based on the power structure and degree of constraints placed on individuals. This classification is limited as it does not include all the aspects and complexity of culture.

Type 1: Power culture. It is characterized by the concentration of power in the hand of a single or small group of individuals and is typical to small organizations. Decision-making is done by individuals or small groups and is then faster, allowing the company to move quickly. Reward systems are often inequitable as they are influenced by personal preferences. Employees are expected to do what their boss tells them and individual challenges are suppressed provoking frequently low moral and feeling of powerlessness. This category can be further divided according to the type of legitimacy for the exercised power. In patriarchal power cultures, power comes from the company’s ownership or from personal stake or commitment to the organization. Leaders are considered to naturally act for the company’s sake. The exercised power is understood by each organizational member and considered as legitimate. Managers treat employees in a parent-child fashion adopting a responsible and protective attitude. On the contrary, in autocratic power cultures, authority is provided by status or position in the organization. Power is more resented. Employees view power as oppressive and dissatisfying
and high staff turnover occurs frequent. Employees remain if they consider to be well paid or find a satisfaction inherent to their work.

**Type 2:** Role culture. It is based on logic, rationality and search of efficiency. The organization considers itself as a set of roles that have to be fulfilled rather than a group of individuals. Labor is usually high divided and specialized and the culture is results-oriented. Things are done according to the “corporate bible” and formal procedures and regulations are clearly defined. Employees are expected to stick to the rules and power is hierarchical. Competition usually arises between departments or divisions for instance for the allocation of annual budget. The high degree of formalization provokes a slowness to change and constrains innovation and risk-taking. This culture can be experienced by employees as impersonal and frustrating.

**Type 3:** Task/achievement cultures. The emphasis is placed on completing the task. The culture is team-oriented as individuals are gathered around and committed to a specific task. The way in which things are done is dictated by the particularity of the task at hand. The skills relevant for the task are highly valued. The flexibility and degree of employees’ autonomy are high. People can be creative and the working environment is generally satisfying.

**Type 4:** Person/support culture. It is characterized by egalitarianism. The structure is minimal and is there only to serve organization’s members. The managerial style is mostly supportive and responsive to individual needs. Furthermore, information is shared collectively. Decision-making occurs after discussion of all involved members and with their consensus. This last category is mostly encountered in communities and cooperatives or in some shared facilities.

**4.2.4. The national culture vs. the corporate culture**

Culture is learnt and passed on from generation to generation; it includes a system of values; it belongs to one group in particular and it “influences the behavior of group members in uniform and predictable ways” (Mead 1998, p.4).
The culture can be described with the ‘Onion Diagram’ consisting of layers, such as: values, symbols, heroes and rituals which are exposed as the total concept:

Figure: The ‘Onion Diagram’: Manifestations of culture at different levels of depth

Symbols which are words, gestures, pictures and objects are only commonly recognized by people who share the same culture.

Heroes are dead or alive, imaginary or real persons who have characteristics which are highly respected in a culture. These persons’ characteristics serve as model of behaviour.

Rituals represent the collective activities which are socially essential in a culture and which bound the individuals with collective norms.

These three determinants are subsumed under the term practices for being visible for outside observers and for being interpreted by insiders (Hofstede 2001).

Values are closely related to the ideals shared by a group and determine what is “good” and what is “bad” (Trompenaars, 2000).
Erez and Earley (1993) stated that culture can be defined at different levels: national, organizational and group. Thus, there are different subcultures in one culture. According to Lees (2003), the best way to distinguish national and organizational culture is through categorizing organizational culture as subculture of national culture. On the other hand, Very (2004) divided culture into three levels: the individual level, the national level and the corporate level. Individual culture is the one which is embedded in the upbringing of an individual employee. It is the personality of an individual which was build up through years of socialization. A company therefore composed with different individuals will not always share the values and assumptions of the organization (Risberg, 1999).

National culture can be found in all different human interactions and organizations, whereas corporate culture can be related to the environment within business organizations. National culture is part of the business organizations that cannot be managed in a direct way. In every country, beliefs, attitudes, values, customs, practices and basic assumptions are socially developed and employees bring their cultural inheritance inside the company. However, Lees (2003) believes that the aspects of national culture in M&A can also be managed by bridging the differences and designing a new organization with practices acceptable to both national cultures. Furthermore, in practice, it is sometimes difficult to differentiate whether cultural differences come from national or organizational social constructions.

According to Trompenaars (2000), there are also three levels of culture: national – a culture of a nation or a region, corporate – a culture within a specific organization or company and professional or occupational – a culture of a certain profession, for example medicine doctors or engineers. In this study we are going to concentrate on the first two levels of culture, national culture and corporate culture; mainly because the first one influences the management style, while the second one is influenced by the management style of top executives (Weber et al., 1996).

Some authors as Hellriegel & Slocum (1993), and Schein (1999) state that the core of the corporate culture is “a system of shared values and beliefs” that are common to the members of an organization. Hofstede (1997) does not support this opinion. He argues that the core of organizational culture is not values, which he attributes to national culture, but “shared perceptions of daily practices”. Trompenaars (2000, p.158) supports Hofstede’s approach and defines an organizational culture as “the way in which a group of people (members of the
organization) solves problems and reconciles dilemmas”. Hofstede (1997) justifies his hypothesis saying that organization is not a nation, and these two levels of culture are of different nature. According to him the main difference between organizational and national cultures is the role that manifestation of culture, presented in the “onion” diagram as practices, play in each level (Hofstede, 1997).

The research conducted by the Dutch Institute for Research on Intercultural Cooperation (IRIC) showed that while at the national level cultural differences reside in values, less in practices; at the organizational level, cultural differences reside mostly in practices and less in values (Hofstede, 1997). Values are acquired early in the life, from family, school, surrounding environment. Practices are learned later, when already as an adult people start working (Hofstede, 1997).

Different researches have depicted several factors from the organization’s internal and external environments that shape the corporate culture. These are:

1. the organization’s dependence on technology and the type of employed technology
2. the nature of the activities in the business and the character of the industry it competes in the structure of the organization, and its height and weight (Evans, 2003);
3. but also the human factors, such as:
   - the philosophy of the organization’s founders,
   - the general relationship between employees and their organization,
   - the vertical or hierarchical system of authority defining superiors and subordinates,
   - the general view of employees about the organization’s destiny,
   - the purposes and goals, and their place in it,
   - the management style and the types of control mechanism (Evans, 2003; Trompenaars, 2000).

**National dimensions of culture**

Many theories concerning different aspects of culture have been broadly described in the literature. There are some very basic divisions and descriptions of the culture characteristics. For example, Harris and Moran (2000) identified ten basic characteristics of culture: sense of self and space, communication and language, dress and appearance, food and
feeding habits, time and time consciousness, relationships, values and norms, beliefs and attitudes, mental process and learning, and work practices and habits. Some of these characteristics, such as relationships with nature and with people or time are also described by Schein (1985), Trompenaars (2000), Adler (2002), Hofstede (1997) or Kluckholn and Strodbeck (1961). Hall (1990) and Adler (2002) analyse also space; and Hall (1990) identifies language as an important feature of culture. Schein (1985) and Kluckholn and Strodbeck (1961) stress the importance of the human nature.

So, in the following part we would like to present the models presented by Hofstede and Trompenaars that provide country comparisons and that are relevant from the management theory’s point of view.

Trompenaars’ study supports and extends the previous work of Hofstede. Both models provide guiding principles for efficient international relationship between corporate and national culture (Keaney, 1997). They consider different dimensions which allow comparing national cultural diversity and constitute a basis for cultural understanding (Mathews et.al.2001).

**Hofstede’s cultural dimensions**

Probably the most famous research about culture was undertaken by Geert Hofstede from 1967 to 1973 (Hill, 2002). His collected data is based on a survey addressed to over 116,000 IBM employees in over 70 countries worldwide. He found out that there are five cultural dimensions which summarize different cultures and explain how and why people from different countries behave as they do. These five dimensions are:

1. **Power distance:** This concerns the extent to which less powerful members of organizations within a country expect and accept that power is distributed unequally. National cultures that demonstrated what Hofstede called a ‘low power distance’ are ones in which there is a concern to minimise inequalities. The less powerful in these societies tend to look to those with power to make decisions, and inequalities within society are more acceptable. This is
represented by a tendency for the centralization of power and the subordination of those with less power within businesses.

2. **Collectivism versus individualism:** In an individualistic society, people are expected to look after themselves and their families. In the case of business this is reflected in, for example, employment contracts based on hiring and firing. In more collective societies, people are more concerned for others and the culture is based around more cohesive groups, such as the family, which offer protection in exchange for loyalty. This tendency is reflected in businesses as well as elsewhere in society.

3. **Masculinity versus femininity:** This refers to the degree to which gender roles are distinct and adhered to within a society. In high femininity societies, social gender roles overlap, with both men and women valuing ‘feminine’ qualities such as modesty, intuition and quality of life above the more traditionally ‘masculine’ qualities of aggression and competition.

4. **Uncertainty avoidance:** This concerns the extent to which the members of a society feel threatened by uncertain and unknown situations. High uncertainty avoidance scores mean that there is a fear of ambiguous situations, a preference for being busy and being precise and punctual.

5. **Short versus long term orientation:** This refers to the extent to which long-termism or short-termism appears to be the dominant approach. Long-termism stresses perseverance and being sparing with resources. Short-termism, in Hofstede's analysis, involves a greater emphasis on quick results. Values associated with Long-Term Orientation are thrift and perseverance; values associated with Short-Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's "face".

The theory of Hofstede has many weak moments and has been criticized by several researchers. Firstly, it studies cultures within the limits of national boundaries, whereas cultural territories do not always correspond with those of a country, especially in case of countries which include several socially dominant or inferior culture groups, for example Switzerland with French, German, Italian and Romansch cultures or Spain with Basque, Catalan and Castillian cultures (Mead, 1998).

Second, the model is based on research within only one company within a single industry, which according to Mead (1998) may be misleading because the study is limited to one small group of people, educated, generally middle class, and does not embrace people from
other social groups, for example unskilled workers, public sector employees, etc. which are not represented. Mead observed as well that some of the dimensions overlap. He found that some elements of being characteristics for large power distance countries have exactly the same meaning as characteristics of masculine countries, what leads to confusion about which dimension is the behaviour based on (Mead, 1998).

However, Hofstede’s study is the only one that compares national cultures so much in depth.

**Trompenaars’ cultural dimensions**

Fons Trompenaars also represented in 1994 a model with seven different dimensions of national cultural differences which are subject to international business (Hofstede, 1996).

He used research questionnaires to over 15.000 managers from 28 countries and received approximately 500 responses from each nation which are usable for the analysis of the research. Five of the seven dimensions relate to how people deal with each other which can be compared with Hofstede’s dimensions. Two dimensions relate to time and the environment (Hodgetts and Luthans, 2003). His identified dimensions are:

1. **Universalism versus particularism:**
   Formal rules are more important for cultures with high universalism whereby cultures with high particularism rate relationships more than rules and agreements.

2. **Individualism versus communitarianism:**
   This dimension can be correlated to Hofstede’s cultural dimension. Although Trompenaars derived these relationships differently, the core meanings are the same. He identified some different findings than Hofstede did, but this is maybe because cultures developed further during the time when the two different cultural investigations were made (Hodgetts and Luthans, 2003).

3. **Neutral versus emotional:**
   In a neutral culture people show their emotions less, whereas people in countries rated as being emotional show their feelings more openly (Morrison, 2002).
4. Specific versus diffuse:
Specific cultures separate work from private life (Morrison 2002). In diffuse cultures it is not that separated and individuals guard their work life carefully as people also enter in their private life when entering their work life.

5. Achievement versus ascription:
In an achievement culture people get status from their performance, accomplishments and records, whereas in ascription cultures people get their status from birth, family, gender or age (Morrison, 2002).

6. Time:
There are different approaches such as sequential and synchronous. People in sequential cultures tend to be on time and keep appointments strictly whereas people living in synchronous cultures do not necessarily keep appointments strictly or they are changed at the last moment. In these cultures relationships are higher rated than schedules.

7. Environment:
This approach refers to if people like to control what is happening in their environment (inner-directed) or if they let things happen (outer-directed). People who control their environment are convinced to have a choice, whereas managers who are controlled by their environment wait what happens.

It is necessary to note that the application of many management theories, e.g. pay-by-performance or management-by-objectives derived from Anglo-Saxon culture, are unsuitable for other cultures with different norms and values. This means that there is no standardized approach, but companies doing international business must adapt to local, social and cultural profiles (Morrison, 2002).

4.3 Leadership and change management

As the corporate culture integration is included in the change management context, we found necessary to develop this section by introducing the leader’s role within the change
management context. The corporate culture management is concerned to some extend by the organizational change. Specifically, Diefenbach states that change as a whole is about” changing the structures, processes, routines and outcomes. At the same time, it is even more about changing how people do the business, how they think and act, it is about changing schemata and worldviews of people… it is cultural change” (p. 127).

In fact, in today’s business landscape, companies in all industries have to build the capacity for change in order to face the increasingly competitiveness and technological pressure (Smith, 2006). Managing change is, therefore, the key factor in order to achieve future prosperity, to preserve or increase the market share and to generate or sustain a competitive advantage (Lientz and Rea, 2005; Meredith, 2006). However, navigating effective process, as the M&A for example, requires efficient and sustained leadership at all the organisational levels (Smith, 2006). Indeed, leaders play a major role in planning and implementing change as “real change is not something that can be simply imposed on an organization” (Ibid, p. 302). So, in this section of our theoretical framework, we will emphasize on the strategies or approaches that the leaders should adopt while they are planning and implementing change within the organization.

As stated before, organizational change effort has to be carried out by the leaders themselves. In fact, the lack of leadership involvement is a common reason for failure, in achieving the expected results, that has been underlined by many authors (Kavanagh and Ashkanasy, 2006; Smith, 2006; Diefenbach, 2007). In order to overcome this reality, Smith argues that each leader has to make proof of three critical factors: commitment, vision and direction: leaders and senior managers have to feel involved and must embody the new vision in order to attain the fixed objectives; their words and actions have to represent the intended change. Also, leaders and top executives have to establish clear and realizable methods that employees can refer to in order to implement the change concretely. However, substantial change can happen only if people feel concerned by their transformational work environment and successful leaders cannot exist without followers. So, the best chance to get enduring change outcomes is by accomplishing a partnership between people who lead the company and those who work at the bottom of the organization. In effect, Smith, emphasized on the importance of the “human factor” in the change management process. He states that “ people, the human resources of organizations, are both an essential factor in achieving change as well
as being the biggest potential obstacles to change” (Smith, 2006; p. 301). Consequently, he introduces nine fundamental key elements to achieve successful and sustainable change:

- **Ensure readiness for change**: it is important to communicate widely about the change even before the change planning of the change process and therefore a receptive environment to change will take place among the employees.

- **Plan for change**: according to Smith, organizational change is a complex and long process which require plans by describing the priorities, timelines, the different responsibilities that will be assigned, etc. he underlines that people who are concerned by the change must be involved and aware about what is happening during the planning process.

- **Lead change**: the organization need a competent leader to carry out the organizational change that has the ability to get people involved in transforming their work environment.

- **Manage change**: managing change is a critical key aspect. Leaders have to keep in mind the goals and the organizational agenda as to set key meetings with wide communication and discussion. Leaders are demanded to take risks, to openly acknowledge the failure which allow learning from the experience and in contrast to celebrate the “wins” to encourage the employees. Also, by empowering employees from each level of the organization, new ideas and way of thinking and working may emerge.

- **Support change**: infrastructure and other needed resources are important for the change process like the right team change, money, time, … but also effective human resources systems for training and development programs.

- **Deal with resistance to change**: this is “natural and expected part of any organizational change”. (p. 303). In order to cope with this phenomenon, the leader has to understand “the nature and the resistance” for resistance. Then, the leader has to listen and try to overcome it but for some context, the use of power and authority can represent a good approach to surmount “hard-core” resistance.

- **Communicate effectively**: employees are likely to trust their leader when the communication is clear, honest, regular and complete at all organizational levels. Also, communication is a two-way process, leaders have to consider the employees’ concerns in order to install a trustful relationship. Moreover, the author argue that communication have to be established with the client but also the stakeholders.
- **Follow through, evaluate, and learn**: when the change is totally implemented, the leader has to evaluate the final outcomes, whether it fits with the expectations or not. Then, if the change implementation is a success or a failure, the leader has to take lessons from this experience.

- **Attend to the human factor**: this is the key success for change, “Changes happens only when people make it happen” (Ibid, p.305).

  Communication and “human factor” are both the most important elements that a leader should pay attention to in order to create a successful and effective plan of actions (Diefenbach, 2007). The author underlines that “people are quite sensitive about the “technical aspects of change initiatives, i.e. how change is introduced, communicated and discussed”. In order to stress this important reflection, we will refer here to the “sensegiving activities”. In fact, leaders are usually involved in “sensegiving activities” towards others which is also called the management of meaning. Indeed, leaders convey their messages through the process of sensegiving. In order to clarify the concept of “sensegiving”, we will refer to Gioia and Chittipeddi’s definition: “Sensegiving is concerned with the process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality”. By others, we understand both internal and external participants. Plus, it is important to emphasize the word “redefinition”. It means that the sensegiver has to reframe the specific “frames of references” of his or her followers and to induce or inspire a new reality of the organization. So, in order to grasp the essence of sensegiving, it is extremely useful to take into account four leadership principles described by Smircich and Morgan (1982):

  - Leadership is essentially a social process defined through interaction
  - Leadership involves a process of defining reality in ways that are sensible to the led
  - Leadership involves a dependency relationship in which individuals surrender their powers to interpret and define reality to others
  - The emergence of formal leadership roles represents an additional stage of institutionalization, in which rights and obligations to define the nature of experience and activity are recognized and formalized”

  In short, leaders have to embody the meanings and values of the organization in a clear and appropriate language and trough symbolic discourse, rituals, stories and other forms of
communication. The purpose is to attract attention of the employees and to derive their actions to the achievement of the desirable goals. The meaning thus created, embodied and conveyed will be considered as the point of reference for the followers’ actions and comprehension (Ibid).

To conclude, the leader’s role is the main factor that encourages change within any organizations. Also through an efficient corporate communication, employees tend to understand the objectives driving the change or simply decrease the degree of anxiousness and rumors which can affect the change implementation.

4.3.1. Cultural leadership

Mergers and acquisitions are highly complex processes with a significant number of factors that can lead whether to success or failure. However, “Cultural clashes” are usually blamed for the unsatisfied Merger and Acquisition results (Bligh, 2006; Kavanah and al., 2006; Cartwright and Cooper, 1995). According to Lees (2003) “factors of distance, differences in law, language, political context, ways of doing business, management styles, ways of thinking, values and basic assumptions” are features that have to be taken into consideration to make the M&A integration successful. Moreover, Cartwright and Cooper (1995) states that each merger produce changes that affect considerably the corporate culture of the merging firms. The problem can even be more complicated while the merger happens between two companies from different countries. Nevertheless, Cultural leadership is an important process that can significantly influence the organizational cultures merger. Indeed, Pettigrew (1979) was the first author who related leadership to organizational culture; he pointed out that “a leader’s effectiveness is likely to be influenced ‘by the extent to which a leader can create words that explain and thereby give order to collective experiences” (p. 578).

On the other hand, Lees (2003) argues that national and international merger or acquisition need a leader that possesses a large amount of cross-cultural competences because “in recent years, all the talk has been about developing global markets, not about developing global managers to sustain the markets” (Ibid, pg. 250). So, leadership is the power bases and interests that can direct the cultural change. Broadly, organizational leaders are the key actor of conducting effective corporate culture change (Schein, 1993). Thies and Nadler suggest that in
order to make the cultural change occurring within the new merged organization, “there is no substitute for the active engagement of the CEO and executive team” (pg. 83). Bennis and al. (2003) similarly argue that “the single most important determinant of corporate culture is the behaviour of the chief executive officer . . . he or she is the one clearly responsible for shaping the beliefs, motives, commitments, and predispositions” (p. 425). Nonetheless, the influence of leaders rests on how others, the followers, will regard and consider them. Several authors will be described in this section, each author propose its own perspective on how the post-merger corporate culture should be integrated. We will explore the strategies and stress the major element that the leader should pay attention to.

First, Michelle C. Bligh (2006) describes the role that all leaders should adopt in order to influence the cultural change at all level of the organization. She refers to Trice and Beyer (1993) concept. They demarcate four variants of cultural leadership: “leadership that creates, changes, embodies, or integrates cultural elements” that arise separately in response to different organizational issues (p. 401). The main author suggests that those four cultural leadership variants are actually the key features to conduct an effective post-merger leadership cultural integration only if they are taken simultaneously.

- Leaders that create: leaders seek to establish new cultural elements
First, cultural leaders from each firms may make an effort in understanding the “histories and uniqueness” of the companies involved in the merger before moving forward. The cultural variation involved the different perspectives and ways of doing things. Then, from those acknowledgements, leaders should come up with new cultural meanings “under a broader umbrella of cultural unity” (pg. 405) by developing, for example, a new approach which combines the best elements of both cultures. Bligh stresses that “recognizing and utilizing the dual cultural forces of unity and multiplicity can be a powerful tool in facilitating cultural integration”.

Another theme is the intense emotionality which emerges from the merger or acquisition; Leaders need to address this post-merger issue. The author highlights the importance of “caring and empathy” with employees throughout an effective interaction. By misunderstanding this emotional rash, leaders may create resistance and reduce the
commitment of employees in the integration process. Leaders should challenge the employees to channel these emotions constructively into positives thoughts such as new job opportunities.

Thirdly, Leaders have to create moderate expectations while they are preparing the employees for the forthcoming changes. Indeed, leaders tend to create high expectations and are self-confident during the cultural change planning. It may results to “resentment, distrust, and lowered morale as employees perceived the actuality of the experience as being much different from the picture painted to them before. So, leaders should give realistic expectations about the difficulties that will emerge accompanied with reliable messages about the success probability. Therefore, the employees will see the expectation as a challenge that they can to meet.

Leadership that changes: modify some existing cultural values

According to the author, while leaders are about to replace the old existing cultural values and beliefs; they should articulate these change in a way that employees perceive the change as a benefit for the organization and at the same time also for themselves. Also, leaders have to create a direction for employees in order to make them understand why the change are necessary and to make them “pulling the rope in the same direction” (pg. 408). The consequences of a lack of direction are uncertainty and prolific rumours that will surround the upcoming consolidation. Plus, cultural leaders should build up a constant “momentum” which have to keep on growing in each level of the organization without the further intervention of the leaders. The author suggests identifying key individuals who can act as the cultural leaders themselves to keep the integration process moving forward to positive outcomes. Finally, once the momentum is created consequently commitment for change will emerge from the employees.

Another important aspect is the strong knowledge of the leader about the daily routine. In order to support a new cultural framework, cultural leaders have to act in a way that symbolise this new corporate culture. According to Trice and Beyer’s (1991, 1993) cultural leaders “can facilitate integration through everyday details, such as the order of memos, where meetings are held, or the language that they use when referring to the groups involved. All of these minor details can potentially send very strong messages to other employees about a leader or peer’s commitment to the cultural integration process” (pg. 411).
The author stressed another integral component of the cultural leader: the role modelling opposed to a “laissez faire” attitude. It means to “underscore the need for leaders to support desired values through a variety of behaviours” (pg. 412) which will lead to empowerment and support for the employees involved in the integration process. Some examples are picking up a piece of paper on the floor, treating transferred employees in an inclusive, respectful way; leaders have “to act like they care”.

- **Leadership that integrates: facilitate the integration of both existing and new values into the merging culture**

  Cultural leaders, during the integration process, will confront the situation whereby employees will try to take pride in being able “to sustain a subculture of their previous site in their new environment”. So, leaders should as a priority build teamwork across the different sites in order to avoid the countercultural formation or stereotype reinforcement.

  Plus, according to the author, “the staff can make it work or they can make it fail” (pg. 414). So, involving employees in the merged culture is another vital component that has to be taken seriously by the cultural leader because the failure or the success of the merger is highly influenced by this factor. For example, “by involving them in creating what is best for practice and best for them”.

  Furthermore, Bligh highlights the importance of the corporate communication. She suggests an informal communication when it comes to debate about the cultural differences. If the leader has the possibility to value the individualized communication, it will just decrease the misunderstandings, rumours, fear and increase the conviction for the integration process.

  Additionally, cultural leaders have to “create” time and “creative” channels of communication in order to convey the message effectively regarding the integrations concerns. Also, the author repeatedly emphasized “the need for creative, open, frequent, one-on-one communication about cultural differences as a basic prerequisite for cultural integration” (pg. 414).

- **Leadership that embodies: support and reinforce the new cultural values**

  The author relates the embodiment function to the act of “keeping the existing culture vital”. Indeed, it will facilitate the integration of both existing and new values into the new
merging culture. However, the author did not describe this function as she did for the precedent. Due to the “timing of the data collection, the findings do not speak to Trice and Beyer’s (1993) theme of cultural leadership that embodies” (pg. 416).

On the other hand, Ross D. (2005) relates the unsuccessful results following the merger or the acquisition to the “un-preparation” post-merger integration. One key factor is emphasized in order to overcome the cultural integration challenges: the human factor. So, the author elaborated an “integration plan” in order to cope with the creation and the integration of a new culture within M&A context. According to the author there are two phases, the first concerns the alignment of the new organization’s system, processes and procedures (mechanical adjustments) and the second the alignment with people involved in the new merged culture like employees, leadership team...

Furthermore, to move to a new culture represents a significant change initiative. So once the desired culture is defined, the author proposes five important steps in order to achieve a sustainable new merged culture:

1. **Obtain individual buy-in from leaders**

   During the post-integration period, the integration strategies must first be understood and embodied by the leaders to be effectively owned by the employees. To do so, leaders have to find the right track in order to represent and articulate the basic assumptions, expectations before engaging others in the implementation. According to the author, aligning leaders with a new strategy and culture, works better if a step by step approach is taken. First, leaders have to point out their unique interpretation of the desired culture, then acknowledge that this “integration plan” fits the best to reach the cultural objectives. Thirdly, leaders have to establish a balance between their personal and cultural change goals; their commitment in the integration process will highly depend on this issue. Moreover the author suggests that merger integration should include these features:

   - An early start;
   - A timetable aimed at speedy completion;
   - Decisive leadership;
• Clear and frequent communications to members of both organizations;
• Focus on customer service, and the willingness to make decisions on the toughest issues
(Ibid, pg. 5).

2. Address the “me” issues

To address the “me” issues is a critical priority for the leaders because all the employees from each level of the organization are preoccupy about what is going to happen to them after the merger or the acquisition. The author emphasizes the typical "me" issues (pg. 7):

• Will I have a job?
• Will my pay and benefits change?
• What will happen to my pension plan?
• Who will I report to?
• Will I have to move?
• What will 'they' be like to work for?

The consequences of this uncertain environment may be the decline of the employees’ production or the loose of “key-talent” who will search for stability in another company and also the unfocused on customers needs. So, leaders are required to make public the decisions regarding the employees’ future within the organization and answer to all the related questions. Leaders have to keep in mind that the longest the integration process will last the more the drop of the production and delay in the achievement of the deal value will be.

3. Identify integration risk factors

This section stresses the risk factors that merged organizations should take into account from the first beginning of the planning process in order to reach the initial goals. These risks are related to the investors, analysts or stakeholders’ concerns in the M&A process.

Pre-deal positioning: it s necessary to clearly point out why the deal has been initiated and what are the potential synergies.
1. M&A capability: this risk refers to the organization’s experience in M&A which will serve to moderate the risk.

2. Proximity: if the organizations involved are part of two different geographical regions, it is important to identify the legal, language and cultural differences associated with the merged companies.

3. Hostility quotient: if the acquisition is compared to a hostile takeover then the risk of unsuccessful outcomes is higher.

4. Competition: if the market, within both merged companies, is highly competitive then the response of the competitors will move sometimes faster to fill the gap while the merger is still in the integration process.

5. Financial context/business performance: what is the probability to reach the initial goals?

6. Relative dominance: One of the myths within M&A is the "merger of equals". It is common in the merger of equals that at least one of the partners has not been honest internally.

   Strategic non-alignment: this risk takes into consideration the probability of integration when two companies are not strategically aligned.
   - Desired integration level: on the other hand, a high degree of integration can also increase the complexity of the deal.
   - Management talent: a merger or an acquisition requires a talented management team which will be able to lead the integration successfully.
   - Ambiguity in power and authority: the best solution in order to deal with this risk is to appoint an experienced manager to lead the integration.
   - Concurrent pressures: a company has also to take into consideration the external.

   So, leaders have to continually assess the risks factors described above in order to increase the successful deal goals during the integration process.

4. Avoid deadly sins of M&A’s

   In this fourth section, the author reviews seven pitfalls that leaders should avoid in order to achieve the cultural integration within the new company (Ibid, pg. 10):
1. Poor due diligence including financial and human capital due diligence. “The former will result in money being left on the table. The latter will lead to unanticipated integration costs” (pg. 10).

2. Delaying the start of the integration and dragging out the finish. If the integration process last more than it should or if issues are left aside without accurate resolution, then the productivity and the forecasted synergies will be affected.

3. Allowing divergent initiatives. Initiatives have to be achieved with the involvement of each person in order to cross the line together. Otherwise, delays will take place and mess the integration process timeline.

4. Taking too long to answer the "me" issues. As stated before, leaders have to tackle those issues as a priority to keep employees in the right direction.

5. Insufficient communication. “During an M&A, people's desire to "know" increases (pg. 12). If the leader does not communicate effectively, the gap will be quickly filled with rumours and innuendo affecting also the productivity.

6. Putting no one in charge. The cultural leader who is assigned must be someone who is respected within the new organization and who has the authority to make decisions.

7. Ignoring project management disciplines. Disciplined project management is the only way to guarantee that the leader can plan, monitor and measure the progress to achieve the objectives.

5. Learn from best practices
   In the last section, the author points out 10 key M&A success factors “that will lead the integration process to the initial objectives (pg. 13):

1. Perform thorough due diligence, both financial and human capital. Whatever happens at due
diligence will impede or facilitate the post-deal activities; ensure you have a septic on your team.

2. Formulate the vision of the degree of integration. The degree dictates the complexity and its associated risks.

3. Increase the speed of decision making. This is not the occasion for precision.

4. Align senior management. Visible support and commitment is mandatory.

5. Clearly define the approach. Everyone who needs to know, knows.

6. Appoint a respected and capable integration leader. This is not the time to earn stripes; this is the time to use them.

7. Establish a dedicated and capable merger team. Team and task members must be responsive and focused.

8. Utilise best practices. Use the best available to you.

9. Set measurable goals and objectives. Clear and achievable deliverables are a must.

10. Maximise communication. Open and frank two-way communication is an imperative.

Finally, the author underlines the importance of the time. Indeed, time for acting change is limited. The faster the integration process will be implemented and achieved, the better the cultural integration will be accepted.
Chapter 5: Case studies

In this section we will present an analytical reflection about the DaimlerChrysler and Cloetta Fazer mergers including their value creation and challenges. There will be information from several sources. We use only information, which is essential for our study.

5.1. Daimler Chrysler (failure)

5.1.1. Introduction

“This is much more than a merger, today we are creating the world’s leading automotive company for the 21st century. We are combining the two most innovative car companies in the world” (Schrempp, 1998a – Chairman of the Daimler-Benz Management Board).

During the 1990s the automobile industry had to face a historical depression period as well as absolute top values in the same decade. For example, the German production in this industry faced a break-down in 1993 but already in 1998 it achieved a record value of 5.7 million vehicles. This development was also marked by a fierce international competition in the automobile industry and a successful globalization strategy by many car manufacturers (Industriegewerkschaft Metall, 2000). European and American carmakers were keeping trying to close the gap between them and their Japanese rivals that have been bringing the system of lean production to perfection for decades. Nevertheless, competition has not been won in manufacturing but in product development (The Economist, 2004a). Low-cost producers are likely to enter the market and they contributed to further intensify competition (The Economist, 2004b). So, manufacturers have to face a dilemma between steadily reducing costs and being competitive on the market. However, prices cannot be increased due to the fierce competitive situation, but the development of new vehicles and their launching on the market is expensive and companies cannot forecast clients’ acceptance of these new cars in advance (Löwisch, 1999).
The merger

The DaimlerChrysler merger was announced on the 7th of May 1998 after a $38 billion stock deal. The Wall Street Journal named it “the biggest industrial merger of all time.” The merger was announced as “a merger of equal”. Daimler-Benz CEO Jürgen Schrempp hailed the union as “a merger of equals, a merger of growth, and a merger of unprecedented strength” (Grässlin, 2000) and was supposed to be successful. Indeed, the combination between the largest industrial company in Europe and one of the biggest American corporation represented the largest industrial Trans-Atlantic merger in history with an annual output of over $130 billion (Parmentier, 2004). The merged company, DaimlerChrysler, was the fifth largest auto maker in terms of the number of vehicles produced, ranking after GM, Ford, Toyota and Volkswagen (WSWS, 1998).

Jurgen E. Schrempp, Chairman and CEO, Daimler-Benz AG and Robert J. Eaton, Chairman and CEO, Chrysler Corporation stated before the merger happened that: “We believe that the merger of Chrysler Corporation and Daimler-Benz AG to form DaimlerChrysler is a historical step that will offer Daimler-Benz shareholders exciting perspectives. In addition to participating in the growth of two very profitable automobiles companies, the merger offers the opportunity to benefit from the additional earnings potential that we believe will be generated by the emerged activities of the new company.

We have already identified opportunities to increase sales, to create new markets for DaimlerChrysler, to reduce purchasing costs and to realize economies of scale. We are well-positioned to capitalize on these opportunities to increase the earnings power of DaimlerChrysler AG. In the short term, we see synergies of 1.4 billion that we expect to more than double in the medium term. Even beyond that, given the creativity and inventiveness of our teams, we expect to be able to identify substantial additional benefits as the integration process accelerates”. (Schweiger D., 2002)

Basic terms of the merger explained in the proxy statement of DaimlerChrysler:

- The company DaimlerChrysler would be incorporated in Germany with two headquarters in Stuttgart and Michigan.
Management control was split with each nine executives who have voting power on DaimlerChrysler.

Schrempp and Eaton would be Co-Chairmen for 3 years. After that Eaton would retire.

The stock of the new company would be traded under ‘DCX’. Each Daimler share would be exchanged in 1.005 DaimlerChrysler share, and each Chrysler share would be exchanged in 0.6235 DaimlerChrysler shares.

Daimler shareholders would own 58% and Chrysler shareholders would own 42% of the new company’s stock.

There were no plant closings or employee layoffs planned.

There will be no usage of the DaimlerChrysler name on the vehicles, each brand name will remain: Mercedes-Benz, Chrysler, Plymouth, Jeep, Dodge, Freightliner, Sterling and Setra (Shelton, Hall and Darling 2003).

**Chrysler Corporation**

Chrysler Corporation, located in Michigan, USA, is an American automobile manufacturer that has been founded in 1925 by Walter P. Chrysler. It operated in two different industry segments: Automotive Operations, including research, design manufacture assembly and sales of cars, trucks and related spare parts; and Financial Services including the operations of Chrysler Financial Corporation and consolidated subsidiaries. These financial services were primarily focused on the consumer and dealer automotive financing for Chrysler products. It is characterized by being the volatile American automotive business cycle (Finkelstein S., 2002). Indeed, since the Second World War, it has brought back the company from bankruptcy four times (Kruckeberg, 2000). Chrysler was extremely vulnerable financially, an evidence of this vulnerability is the hostile takeover attempt carried out by Kirk Kirkorian, a 13% shareholder and Lee Iacocca, the former chairman of the board, who tried to take control over the corporation in 1995 (Ibid). Nevertheless, in the mid-1990s Chrysler corporation was the most profitable automotive producer in the world thanks to the pick-up, mini-vans and sport-utility vehicles segments. Chrysler took a risk to design and produce vehicles representing the American spirit while the importations were dominating the market. However, Chrysler was only a big player in the US automotive market. Before the merger Chrysler employed
approximately 122,000 employees with a total in sales and revenues of $61.1 billion (DaimlerChrysler, 1998a).

**Daimler-Benz AG**

On the other hand, Daimler AG, located in Stuttgart, Germany, is a German car corporation specialized in luxury cars with several other activities; Daimler AG is also a truck manufacturer and a financial services provider. It is labeled as being the “world's thirteenth largest car manufacturer” ”firmly established and financially stable” (Parmentier, 2004). It operates in four main businesses which are automotive (passenger cars and commercial vehicles), aerospace, services and directly managed businesses. The company’s major markets are Europe, North and South America and Japan. Furthermore it was expanding to Eastern European markets and East and Southeast Asian markets which are strategically important as production locations. Daimler-Benz was incorporated in Germany and it was Germany’s biggest industrial group with revenues of DM124 billion ($68.9 billion) in 1997 (DaimlerChrysler, 1998a).

We would like to admit that the reasons behind the willingness to merge were quite clear: the hostile takeover attempt was a clear indication that Chrysler Corporation needed stability and financial security by building up a strong partnership that could offer financial support and international presence on the car market; as the investment for increasing the international market share would be enormous even though Chrysler had $7.5 billion in cash on hand and a full range of best-selling products. Also, Chrysler passenger cars were not a success on the worldwide market. On the other hand, Daimler AG wanted in the near future to extend its target through other market segments. So, the German company needed an outside partner in order to not destroy the brand identity of Mercedes Brand.

**5.1.2. Motives and objectives of Daimler Chrysler merger**

Through the Trans-Atlantic merger a company was created with annual revenues of $130 billion, $92 billion market value and approximately 421,000 employees (Emerald Group Publishing Limited, 2004).
“By combining and utilizing each other’s strengths, we will have a pre-eminent position in the global market place for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders” (Schrempp, 1998b).

There were different reasons for the horizontal merger. One of them was the geographic expansion in companies’ respective markets. Both companies matched perfectly as Daimler-Benz derived 63% of its sales from Europe and Chrysler derived 93% of its sales from North America. Through the merger growth opportunities arose by using each other’s facilities, capacities and infrastructure (Blaško, Netter and Sinkey, 2000), especially when companies reach the limits of their own capabilities and resources (The Boston Consulting Group, 1998).

The Chrysler Board approved the merger due to several factors:

The merger was implemented in the automotive industry where many car manufacturers consolidate with others in order to survive the global competition (Industriegewerkschaft Metall, 2000).

Both companies had complementary strengths as Daimler-Benz was specialized in luxury and higher end cars and Chrysler was specialized in producing sport-utility vehicles and minivans (Blaško, Netter and Sinkey, 2000).

Furthermore Daimler-Benz had a good reputation for its engineering and technology superiority and Chrysler’s superior reputation was in fast product development and design. These issues should be combined through the merger (Grant, 2003).

Through the merger, there would arise opportunities for synergies, such as shared technologies, distribution, purchasing and know-how, and benefits of $1.4 billion in the first year of merged operations and annual $3 billion within three to five years were expected.

The Daimler-Benz Management Board announced some additional factors as merger motives: Daimler-Benz could strengthen its competitive position by expanding in the US market and by expanding its product range. Thus the company could decrease the risk potential of being dependent on the luxury segment in the automobile industry. Furthermore, an enhanced shareholder return was expected due to the creation of the third largest automotive company worldwide in terms of revenues, market capitalization and earnings. In the long run there were synergies expected in purchasing, distribution, research and development and, in the long run, in development and growth of markets (Blaško, Netter and Sinkey 2000).
Table: Expected synergies from the merger

<table>
<thead>
<tr>
<th>Expected synergies</th>
<th>1999 ($ billion)</th>
<th>from 2001 ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing</td>
<td>0.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Integration/financial services</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Research and technology/platform technologies</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Sales/distribution infrastructure</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Higher sales</td>
<td>0.3</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.3</strong></td>
<td><strong>3.0</strong></td>
</tr>
</tbody>
</table>


As both car manufacturers acted in different segments and served different target groups due to the merger, they could serve both markets and expand their sales volume without competing with each other.

While combining their competencies, Daimler-Benz and Chrysler could reinforce their market positions, because they could provide customers good quality, design and technology.

They could also integrate and learn from their different corporate cultures. Integrating some of the lean and flexible ways of Chrysler into the traditional engineering-driven Daimler culture was seen as a major benefit of the merger and the other way round, Chrysler could use the German self-discipline, engineering and quality focus.

Schrempp pointed out that their customers would not realize the shared spare parts of the cars and they would benefit from cost reductions in two ways: from jointly purchasing commodity parts and components used by both manufacturers and from benchmarking and mutual learning (Paul, 2004b).

It finally did not happen as Schrempp and Eaton were expected. The merger of equal was supposed to change the entire global auto industry but in fact, three years later, DaimlerChrysler’s market capitalization stands at $44 billion which was approximately equal to the value of Daimler-Benz before the merger (Kruckeberg, 2000). And in the same track, the Chrysler Group's share value has declined by one-third relative to pre-merger values. In 2006, Chrysler reported losses of US$1.5 billion. So, on the 3rd of August 2007, Daimler Chrysler sold the Chrysler group to Cerberus Capital Management. Cerbus paid $650 million in order to take 80.1 percent stake in the new company, Chrysler Holding LLC while Daimler AG
retained 19.9 % in the same company which is quite far from the $36 billion paid to acquire Chrysler in 1998.

The following figure illustrates the DaimlerChrysler vision statement.

Figure: The DaimlerChrysler vision statement

![Vision Statement Diagram]


Source: Paul 2003, p.2

Moreover, as it was mentioned in our theoretical framework by Ross D. (2005), in order to develop a sustainable merged culture there are five steps to follow. One of them is the identification of the 12 integration risk factors. The higher the amount of the factors is, the more difficult the cultural integration process is. Following are the risk factors identified in DaimlerChrysler case:

**M&A capability:** it was the first Trans-Atlantique mega merger for both companies.

**Proximity:** both organizations were part of two different geographical regions with different legal, language and cultures.

**Competition:** the market, within both companies merged, is highly competitive; then the
response of the competitors will move sometimes faster to fill the gap while the merger is still in the integration process.

**Financial context/business performance:** in general, there is a high risk not to reach the initial goals?

**Relative dominance:** One of the myths within M&A is the "merger of equals". It is common in the merger of equals that at least one of the partners has not been honest internally which was the case of Daimler-Chrysler.

**Ambiguity in power and authority:** as there were two leaders in Daimler-Chrysler, this risk was present.

Thus, as we can see, Daimler-Chrysler faced a large amount of risks which did not allow the cultural integration to be successful. Already at this stage of the merger the Chrysler Board stated some potential risk factors, e.g. difficulties in the integration process of two big companies which operate at different geographical locations incorporated in different countries and the risk that expected synergies and benefits might not be fully realised (Blaško, Netter and Sinkey 2000).

5.1.3. **Cultural challenges**

In this part of study we will try to find out what were the major reasons for underperformance after the merger and what cultural challenges the leaders faced.

**Merger or acquisition?**

In less than two years it became apparent, that it was an acquisition rather than “a merger of equals”. Indeed, according to Sudarsanam (2003) the deal is perceived as a merger but in substance it hides a takeover. Also, Chrysler was not the American car manufacturer anymore.

In autumn 2000, DaimlerChrysler CEO Jürgen Schrempp let known to the world that he had always intended Chrysler Group to be a mere subsidiary of DaimlerChrysler. "The Merger of Equals statement was necessary in order to earn the support of Chrysler's workers and the American public, but it was never reality" (Ibid).
Also, Daimler-Benz controlled the majority of seats on the Supervisory Board. The managers who had build the Chrysler Empire left DaimlerChrysler feeling ineffective or eclipsed by the Germans in Stuttgart. The Economist published in 1999 that the merger “is now looking like a no-premium takeover, with trouble ahead”, and that “the so called merger was a takeover of America's third car company by Europe's biggest industrial”. It became obvious that the merger of Daimler-Benz and Chrysler Corporation was not exactly a marriage of equals. It became relevant when the German management started to replace Chrysler’s executives with German managers, or when Daimler-Chrysler refused to position Chrysler logo next to the Mercedes one at the Group’s headquarters in Stuttgart. This created some tension between both groups, because within the new organization “Mercedes was internationally perceived as the fancy, special brand, while Chrysler, Dodge, Plymouth and Jeep the poorer, blue collar relations”. (Grässlin, 2000). The dislike and the gap between both Germans and Americans became deeper and deeper, with some Daimler-Benz executives who declared publicity that they “would never drive a Chrysler”. “My mother drove a Plymouth, and it barely lasted two-and-a-half years” commented Mercedes-Benz division chief Jürgen Hubbert to the Suddeutsche Zeitung (Ibid).

National culture

DaimlerChrysler had to overcome strong cultural differences. Actually, DaimlerChrysler had to face the challenges of building synergies and relationship that do not apparently exist and maintain them in an environment where different nations, cultures, languages and traditions were struggling. Indeed, the merged companies had very different corporate cultures, which were based on different national cultures. Keller (1998) states, “when it comes to the cultures of these two companies, they’re oil and water”

The emergence of these cultural differences between Germans and Americans in practice is a proof of Hofstede’s and Trompenaars’ studies. National cultures are reflected in corporate cultures of companies and in this way national cultural differences are transferred to organizational cultures which is reflected in different views and working styles. Therefore, the national culture had played a major role in the merger
failure because of its impact on the corporate culture since each organisational cultures is deeply rooted in different national culture.

According to Hofstede’s five dimensions the USA and Germany are the countries where with low power distance as Americans and Germans consider themselves equal.

Germany is the country where people with high uncertainty avoidance live. There are a high security need, structured organizational activities, written rules, lower labour turnover, less ambitious employees and managers do not accept some risk-taking. In contrast the USA is the country with low uncertainty avoidance societies. There predominates less structured activities, fewer written rules, a higher labour turnover, more ambitious employees and managers accept some risks (Hodgetts and Luthans, 2003, p.117).

As it was mentioned above individualism is the tendency of people to look after themselves and their immediate family only” on the one side and collectivism is the tendency of people to belong to groups or collectives and to look after each other in exchange for loyalty” on the other side were further measured dimensions by Hofstede. In accordance with Hofstede the USA and Germany are have higher individualism scores as they are rich with high GNP.

Germany and the USA are the countries with a high rate of masculinity where values in society are success, money and things focus on earnings, recognition, advancement and challenge (Hodgetts and Luthans, 2003).
The USA and Germany are countries with a short-term orientation. People like to satisfy their needs ‘here and now’ (Morrison, 2002).

We would like to present comparative analysis of the German and American culture.

Table: Scores of Germany and the USA in Hofstede’s dimensions

<table>
<thead>
<tr>
<th>Cultural Dimension</th>
<th>Germany (Fed Rep.)</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance (PDI)</td>
<td>35 (44)</td>
<td>40 (38)</td>
</tr>
<tr>
<td>Individualism/Collectivism (IDV)</td>
<td>67 (15)</td>
<td>91 (1)</td>
</tr>
<tr>
<td>Uncertainty Avoidance (UAI)</td>
<td>65 (29)</td>
<td>46 (43)</td>
</tr>
<tr>
<td>Masculinity/Femininity (MAS)</td>
<td>66 (9)</td>
<td>62 (15)</td>
</tr>
<tr>
<td>Long-term orientation (LTO)</td>
<td>31 (14)</td>
<td>29 (17)</td>
</tr>
</tbody>
</table>
(The first number in each case is the score (an approximate %), the figure in brackets is that country’s ranking.)
Source: Hofstede 1991a in McQueen 2005

**Power Distance:**
The USA scored with 40 on a medium level as well as Germany (the Federal Republic) did with 35 with a slightly lower score. The power distance index stands for the dependence between the subordinate and the boss. Subordinates in the USA tend to have medium-level dependence needs as its score indicates. The leadership style of US managers is on a participative basis. Due to the slightly lower PDI score of Germany there could arise some difficulties in international business relations. According to the lower PDI score Germany has wider spans of control than their American counterparts. German employees are more autonomous and they carry out a greater job discretion, too (Abdou and Kliche, 2004).

**Individualism / Collectivism:**
The USA has a very high score of 91 on individualism whereby Germany scores much lower with 67 on this dimension. This indicates that Germany is a collectivist culture which was confirmed by Ludwig Erhard by implementing the phrase ‘social market capitalism’ when he described the emerging German economy (Weber et.al.1998); and the USA is a very individualistic one. The focus in a German company is on ‘family feeling’ and social responsibility, whereas the focus at US companies’ is on competition and individuality (Abdou and Kiche, 2004).

**Uncertainty avoidance:**
Germany with the high score of 65 values predictability higher than the USA with the score of 46. Germany tries to avoid uncertainty. They prefer structured learning with clear objectives, detailed assignments and timetables. They also prefer tasks where they can find only one possible correct answer. Germans appreciate to be rewarded for correctness. Job descriptions and clear set procedures are usual in German companies as well as a high level of formalization. German workers prefer to work according to rules. German firms evaluate systems of control, rules and set procedures as more important than US firms. German companies also have a closer degree of supervision and their employees are more loyal to their firm than US employees are to their firm. As US managers are more risk taking, they do not
appreciate the unwillingness of any decision taken by their German colleagues without a deep analysis. Relations between labour unions and management of companies are detailed written and German managers also accept trade unions. For German employees security is important as achievement is for US employees (Abdou and Kiche, 2004).

**Masculinity / Femininity:**

Germany scored slightly higher with 66 than the USA with 62. But nevertheless both cultures are considered as being masculine oriented nations. They do not differ much in this dimension (Abdou and Kiche, 2004).

In relation to Trompenaars there are also some differences between American and German cultures. For example, a university professor in the USA is called by his title at university, but when he goes shopping the store clerk might even call him at his first name and the professor might even ask for advice. When he is golfing, he is only one golfing guy among others. This is different in Germany, e.g. a German professor is called in many different environments by his title; even his wife could call him by his title in public. This is also further applied in international business relations, where people from different cultures have to get along with each other and they have to be tolerant when titles are not used or vice versa (Hodgetts and Luthans, 2003).

Managers from Germany and the USA are both inner-directed, whereby US managers are that in a higher degree (Hodgetts and Luthans, 2003).

**Comparison of German and American cultural assumptions and working practises:**

<table>
<thead>
<tr>
<th>Aspects of work and management</th>
<th>German</th>
<th>American</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior-subordinate relationship</td>
<td>Management control through expertise; subordinates given specific, but broad, responsibilities; subordinates need decisions from supervisors; compliance instead of consensus; <strong>Taylorized</strong> group work</td>
<td>Management control through division of labor; subordinates given specific, but limited responsibilities</td>
</tr>
<tr>
<td>Rewards</td>
<td>Short- and long-term aspects; based on performance</td>
<td>short-term; based on performance</td>
</tr>
<tr>
<td>Employee relationship to firm</td>
<td>Based on law and union strength;</td>
<td>Based on contractual agreements;</td>
</tr>
</tbody>
</table>
skilled worker orientation identify with quality of product more than with companies, yet emotional dependence on firm; designed to increase employee and union influence in firm

emotional independence from company

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Job description
Need details of individual job; more complex and self-paced work; specialists-craft work-oriented
Elaborate division of tasks; clear distribution of responsibility and accountability

---

Cultural assumptions
Individualism with elements of collectivism
Contractual relations (universalistic)
Formal credentials and expertise are valued Specialisation
Individualism Contractual relations between free individuals Experience and track-record are valued Specialisation

Source: Apfelthaler, Muller and Rehder 2002, p.111

Corporate culture

Regarding the corporate culture, even the softer cultural issues were not directly addressed. It was clear for the boards that cultural barriers would exist but little attention has been paid in order to help people to overcome them (Waller, 2001). The different organizational cultures were described as “German engineering versus cowboy independence” (Paul, 2003). So, mutual misunderstandings took place within this new organization: for example the American made a clear distinction between private and professional lives for which Germans felt offended. Indeed, Americans would never stay up at work late in order to socialize with their new transatlantic colleagues. Also, they would never invite some colleagues at home or embrace a colleague in a gesture of farewell which Americans would take as “a major cultural infringement. (Ibid, p.253).

Another cultural issue for the Germans was the Chrysler’s freewheeling culture which was apparently not so free. They found their American colleagues far more hierarchical with many –layered management structure which had been abolished by Schrempp in 1996; but less formal than Stuttgart Möhringen. They would call each other by their Christian names while the titles represented academic distinction in the German culture. Moreover, several persons
from the American side felt themselves victim of racial discrimination due to some German jokes or alleged sexual harassment just because of a “touch on the shoulder”. (Ibid, p.252).

The next issue concerns the tendency of German to document every meeting meticulously. A decision is made only after the document is signed off by two people at the bottom. By contrast, American is freer. They work with each other quickly and the decision would arise after several meetings, they had no need to compile the minute of the conversations. Due to this meticulous memo-based culture, the former Chrysler executives found themselves engaged in decisions that they had not realised they had taken. They would not be aware that they have reached a critical point in the discussion so that the decision is taken (Ibid).

Seltzer (2000) concludes: “Communications strategy must be consistent across borders, but tactically respect and capitalize on local market differences.” These notions were not taken into consideration during the corporate communication between Americans and German. German employees acted according to their managers’ expectations. At Chrysler there was a more in-depth communication with employees dominating. But they realized too late that this was not the applicable way throughout the world (Cervone, 2001).

The final issue concerns the money. Differences in executive compensation schemes also caused potential for a cultural clash. The American executives were remunerated much higher than their German colleagues, doing the same work in Stuttgart. For example, “Daimler-Benz board was earning $11 million between them while Bob Eaton alone made $9.8 million in base salary” (Ibid, p.254). So, the DaimlerChrysler board had a different philosophy regarding the compensation. Bob Eaton said:” You guys in Europe have a real problem with this” (Ibid, p.254). Americans were motivated only by money as the German by the power because they want to dominate the world according to what they thought about each other.

A solution was a new compensation structure combining elements of both companies. Managers earn a basic salary and an additional bonus which is more typical for a German system, or they can chose to receive stock options which is typical for American compensation systems (Shelton, Hall and Darling, 2003).

However, Rüdiger Grube, a Member of the Board of Management of Daimler-Benz and Barry Price, his opposite colleague from Chrysler set six principles to make the Post-merger integration (PMI) successful:
- Maintain the underlying business while in transition
- Create a win-win situation
- Speed, the faster you move, the more likely you are to succeed
- Focus on the value-drivers
- Create a strong culture of personal responsibility
- Remember that the PMI process is temporary- it would last no more than two years.

The manager involved in the PMI implementation had to sign a document that acknowledges the six core principles. However, in practice, there were too many projects to tackle and priorities had to be settled. The priorities were of course those concerned by the company’s profit (Ibid) which strengthens the corporate culture difficulties as they were placed aside.

The failure of the merger was due to the management’s inability to impose a single corporate culture and strategy (Blaško, Netter and Sinkey, 2000). Due to the German dominance of DaimlerChrysler many highly skilled Chrysler employees and executives left the company and joined General Motors or Ford (Paul, 2003).

**Management style**

Misunderstandings occurred between German and American employees resulting from different communication styles, planning and decision-making processes, negotiation strategies and leadership styles leading to a cultural clash (Shelton, Hall and Darling, 2003).

The German communication style is more indirect and respectful of status, such as title, age, gender and social connections, as the American style. Also concerning the leadership styles, Germans prefer a more autocratic style and employees expect to be treated accordingly. German employees are more respectful to their managers than US employees are.

Employment practices are also different. German employees are protected by labour laws and union rules, whereby US hiring and firing practices are more brutal (Shelton, Hall and Darling, 2003).

As far as management style is concerned, German authoritarian vs. American creativity was highly different. Chrysler’s management style was more flexible, agile and creative in
contrast with the German traditional, top-down management style. Daimler reputation was more conservative, efficient and safe and Chrysler’s reputation was therefore daring, diverse and open-minded. For example, German employees expect to receive from their managers the instructions which they will follow without any questioning. Americans, on the other hand, feel comfortable challenging their managers or even giving them advice. If, any employee have an idea he or she could directly inform the top manager while the German will follow the exact procedure by passing through several intermediaries. “The Germans embraced formality and hierarchy, from a well-structured decision-making process to the suit and tie dress code and respect for titles and proper names. Chrysler broke barriers and promoted cross-functional teams that favoured open collars, free-form discussions and casual names”. (Kruckeberg, 2000). Therefore, Daimler-Benz’s culture stressed a more formal and structured management style, while Chrysler favoured a more relaxed and freewheeling style. Daimler’s attempts to take over the entire organization, as explained above, by imposing their own management style and corporate culture.

5.1.4. Conclusion

Theoretically, the merger had to be a success in its entire integration process. The synergies, strategies, improvement in profits and cash flow were nice on paper but the achievement of those objectives depended on if they could have been implemented in practice. However, the heavy presence of cultural conflicts and differences which leaders have left aside and problems between both managements did not help to reach the initial goals. However, the dominant pitfall was that the merger between Daimler and Chrysler “was never truly a marriage of equals” (Schweiger, 2003) while the Chrysler’s management had trust blindly in the merger of equals and did not realize the attempt of Daimler to take over the entire organization. This aspect of the DaimlerChrysler merger has truly affected the success of the merger; it had created an untrusting atmosphere and locked the Chrysler employee’s involvement in the cultural integration. Consequently, leaders have not taken into account this human factor and have left their anxiousness, fears and concerns without any concrete measure. Then, the national culture had also played a major role in the merger failure as the corporate cultures are influenced and driven by the country’s culture. As Kruckeberg (2000)
mentions “it is dangerous to underestimate culture issues in any merger, but when the merger involves two companies from different national cultures, those issues are exacerbate and unless a company is prepared they can be debilitating” (Ibid, pg. 25) which was the case for Daimler-Chrysler. Indeed, Daimler-Chrysler did not study the possible source of cultural clashes. Also, the German’s lack of integrity from taking the cultural mismatches into consideration led the company to the failure. Daimler had rather impose its own culture on the entire group.
5.2. Cloetta Fazer

5.2.1. Introduction

For more than 100 years, the names Cloetta and Fazer have been known and respected on the Nordic region’s confectionery market. Both are known for high quality and strong brands. Cloetta is over 140 years old and Fazer is over 100 years old company. Cloetta Fazer is the Nordic region’s largest chocolate and sugar confectionery company. Sales in 2000 amounted to about MSEK 3,000 and the number of employees was around 2,000, who worked within Confectionery and Trade, Cloetta Fazer’s two business areas. In July 2001 an agreement with the Swiss company Valora Holding AG was signed regarding the sale of the trading business area, which means that Cloetta Fazer will now focus totally on confectionery. (Annual report, 2001)

Cloetta Fazer has six production plants: three in Sweden, two in Finland and one in Poland. Cloetta Fazer has a number one position in Sweden and Finland. In Denmark and Norway they have third position and in Poland the company has the fifth position. At the moment Cloetta Fazer holds a 25% share of the Nordic market. The most important markets are Sweden, Finland, Norway, Denmark, Poland, the Baltic States, and Russia. Cloetta Fazer’s competitors are for example, Kraft Foods, Malaco-Leaf, Nestle, and Cadbury. The most priority brands are Fazer Bla, Kexchoklad, Dumle, Geisha, Polly, Center, Marianne, Assat, Tutti Frutti, Pantteri, Plopp och Tyrkisk Peber.

The merger

Obviously, the reasons for the merger were to make company more competitive and to give their customers and consumers throughout the entire Nordic region an impressive selection of reputable products.
Cloetta

Cloetta was founded 1862 in Copenhagen by the three brothers Christoffer, Nutin and Bernhard Cloetta from Switzerland. In 1901, Cloetta was established in Ljungsbro, Sweden, where the headquarter today is situated. Sixteen years later, Svenska Chokladfabrik AB took over the majority of shares from the Cloetta family. The new company is owned by the Svenfelt family, who today has still great shares in Cloetta. In the late 1980s, Cloetta acquired Consiva and Adaco, and the following year Cloetta joined a strategic alliance with Fazer and Brynilden. In the 1990s, Cloetta was listed on the stock exchange in Stockholm, and made several acquisitions such as Lecora, Sunco and Again, but the most important acquisition took place in 1998 when they acquired Candelia and became market leaders within the chocolate and confectionary industry in Sweden.

Fazer

In 1891, Karl Fazer opened his French-Russian bakery in Helsinki, to finally in 1897, start with the industrial production of the confectionary. During the year 1963, the production of confectionary moved to Fagersta, Sweden, and in 1967 Swedish Karl Fazer AB was established in Sweden. In the late 1980s, Fazer bought A&E Petersen A/S in Denmark and in 1993 Fazer started their activity in Gdansk, Poland. 1998 Fazer bought the Danish sales company C.K. Chokolade A/S.

In 1990, Cloetta and Fazer made a strategic alliance, where three years later, Fazer acquired Chymos, and thereby initiated its operations in Poland. Swedish Cloetta and Finish Fazer Konfektyr then merged on the 1st of January 2000. Cloetta Fazer’s mission is to create joy and delight, to all people, no matter age or preference in taste, shall delighted of the company’s wide assortment of chocolate and confectionary.(Cloetta Fazer, 2000).

Two companies merged with an equal strength, so that neither of the two companies could take over some part of the business. In 2005, Fazer bought more shares and had majority, but they is still a company listed in Stockholm stock exchange.

It is necessary to admit that before two companies merged, solid merger activity was provided for about one year, and careful investigation was made. Each company went through
all functions of both companies; sales (each had two separate sales-fields, with both salesmen and service consultants), marketing, production, logistics, product development, the whole administration. After that Cloetta and Fazer looked where there possibilities to reach synergy effects. The first synergy effect was within sales in Sweden, as Fazer already had a relatively large selling in Sweden, with a seven percent market share. It was incorporated in the sales-fields of Cloetta among other things, which made them estimate to have synergy effects of 75 millions SEK due to this merger.

The companies succeeded in evaluation of synergy effects. The merger was a success from the beginning, and they achieved their aim to become even stronger at the nordic level and market leader within the confectionary business.

“The new identity is based on shared core values and mission. All of these derive from the history, traditions and values of the respective companies, but also reflect future objectives. Company have three brand levels in Cloetta Fazer: corporate brand, umbrella brands and product brands. The corporate brand highlights company identity as the Nordic region’s leading confectionery company. The identity is a bearer of the values our organization represents. The umbrella brands effectively unite and define Cloetta Fazer’s strong and diverse product portfolio for company customers and consumers. The product brands contribute to strong and lasting relationships with company consumers. A product brand stands for both functional and emotional values.” (Annual Report, 2001).

Company vision is to be a leading confectionery company at the Nordic region. Company will act and be perceived as a pacesetter and driving force for development in the industry. With the market’s most attractive product portfolio, company will create added value for company customers, consumers, employees and shareholders.

Cloetta Fazer mission is to create delight and pleasure. It is proved by their operations, their role and assignments. Company mission distinguishes them from others and makes them a better partner and employer.

Company core values are their guiding principles according to which they form the establishment of company new identity. Company core value will influence the tone of interaction among employees who work at Cloetta Fazer and will influence external and communication – with customers and consumers.
5.2.2. Motives and objectives of Cloetta Fazer merger

Cloetta and Fazer have known each other for a long time as they have the production collaboration since 1990s. The confectionary business has become more international, with big companies like Cadbury, Mars, Nestle. In order to be stronger against these giants Cloetta and Fazer considered combining their forces at Nordic level.

The aim was to penetrate the market and to distribute the assortment through the possible merger partner. Moreover, the purpose of the merger was to expand, get bigger and powerful, and as consequence to cope with the competition within the industry. When it comes to parameters, Cloetta Fazer measured the activity by analyzing what kind of strategies existed, what kind of parameters that had been put for the business, and how future investments had been made in each company. Cloetta Fazer states that the staff is very important and therefore a thorough investigation was conducted of what kind of competence that existed in each company to see who could carry through the fusion, and analyzed what kind of key positions there were and what kind of people existed in each company.

The decision to merge was based on the assortment of candy of each company, since it should be a complement to the present assortment. Cloetta Fazer intended to make their assortment different. This was due to the fact that their clients (ICA, Coop, Axfood etc.) were going through such big changes. The competition was very tough. All rival companies needed to have a really good assortment in order to have their shelf space in these stores.

Cloetta Fazer saw the merger as an advantage, as they had been cooperating for many years, and they succeeded very well. Cloetta Fazer say that they have not done any big mistakes, except the fact that they only had 12-20 brands that they tried to launch. For the small company like Cloetta Fazer, that is considered to be quite weak.

However, Cloetta Fazer still have not succeeded in assembled all systems. They have continued with their own IT-systems in each country, and that may have been a mistake, as they could have chosen a common system from the beginning for all units to implement.
5.2.3. Cultural challenges

Cloetta Fazer recognized the importance of organizational culture in accomplishing all functions and the merger work. However, they say that the culture side, national culture aspect is difficult to go through before merging, and can not be done until after a couple of months. On the other hand, Cloetta Fazer did not see the culture differences as a big threat to developing the structure of the organization, as people find each other no matter if they come from India, England or Sweden, since you have to work in common. (Cloetta Fazer, 2000). They mean that production people will always be production people, as marketing people always be marketing people, and most often they tend to find each other and work together. In addition, Cloetta Fazer say that both were willing to fight, and that it was just like a marriage; first honeymoon, in which you want to show how good you are, and then after one-two years, you finally breathe and everyone starts criticizing each other.

National culture

The increased internationalization and interdependence of international markets especially for the Nordic countries, develops a need for better understanding of management in different countries. A big danger for mergers and acquisitions is a lack of understanding of international markets, cultures, and management behaviour.

Hofstede (1983) argues that nationality has implications for management for three reasons: a) nations are political units rooted in history with their own institutions, legal, educational and labour market systems, b) informal organisations are usually culturally based and c) psychological factors formed by early family relations and educational systems, which differ from country to country. Countries tend to cluster by culture (Ronen & Shenkar, in Lindell & Arvonen, 1996). Values, beliefs, norms, and ideals are embedded in a country’s culture and affect the leadership behaviour, goals and strategies of organisation (Lindell & Arvonen, 1996).

Swedish business has been involved in the process of internationalization for a long time. The large firms in Sweden are very closely linked to the global network of countries,
markets and industries. The positive effect of this situation is that there is a group of companies in Sweden that is very experienced and competent in organising international business (Sölvell et. al., 1994). Finns are more nationally oriented because of historical reasons and therefore they don’t for example localise company headquarters abroad, which is more common in Sweden (Taxell, 2000). Taxell continues that Finns know Sweden better than Swedes know Finland. The geography is one of the important reasons for this. Sölvell et. al. (1994) mention that for many Swedes Finland is in the wrong direction because they focus more on the other Nordic countries and the global networks, but for Finnish companies Sweden has always been a natural way to go abroad because its close to Finland.

Taxell (2000) continues that Swedish and Finnish corporate cultures have many similarities, but they also have many differences. These differences should not be exaggerated, but neither should they be forgotten. It is also important to remember about different languages.

Although there are differences between the countries, some research clearly indicates that these differences are not impossible to overcome. Boter and Holmquist ( Lindell & Arvonen, 1996) have asked Swedish CEOs about specific problems encountered in doing business in different countries. According to their results language was marked as a problem with Finnish companies in 27 % of answers. Business climate was marked as a problem with Finnish companies only in 2 % of answers. In comparison with Japan business climate was marked as a problem in 17 % of answers. Management style with Finnish people was marked as a problem in 6 % of the answers, 21 % with Germans and 24 % with Japanese. This study shows that there is not a big problem with differences between Swedish and Finnish companies management style, but definitely there is some difference.

In Hofstede’s (1980) findings for different cultural dimensions biggest difference between Finland and Sweden was in tolerance of uncertainty and masculinity versus feminine. Finland had a lower tolerance of uncertainty and was more masculine. In countries with strong uncertainty avoidance more structured task-oriented behaviour can be anticipated and firms are more internationally oriented (Nilson in Lindell & Arvonen, 1996). In Nilson’s study the Nordic countries were the lowest on power distance. In those countries more consultation and an employee-oriented management style are used. The human factor is regarded as being more important than technology.
In a study of Swedish innovations Tichy (Lindell & Arvonen, 1996) points to a strong commitment to democratic values in Sweden.

In the study of Lindell and Arvonen (1996) it shows that Finland is more task oriented, and Sweden is more employee oriented. Study concludes that even if there is a close historical links between the countries, the Nordic countries area is not homogeneous in management as one might expect. Strong team orientation, especially in Sweden, limits the generation and exploitation of new ideas. The traditional belief is often that the “Management by Perkele” style is used in Finland, and in Sweden people negotiate all the time, but this is according to Taxell (2000) a simplification. He continues by mentioning that people do negotiate a lot in Sweden, but his own observances instead indicate that the real distance between people is shorter in Finland than in Sweden. In Finland people can say directly what they mean, and Taxell (2000) means that this shows that people have trust in each other, they know that the opposite part can handle critique.

Corporate culture

There was quite a big difference between organizational cultures used by Cloetta and Fazer. Fazer was a family-company with a long-term planning and thinking, in which almost always quality came before profit. Cloetta, on the other hand, was a company listed on the Stockholm stock exchange and was very result oriented, and at the same time had more divisions and result departments. Later on, Cloetta Fazer had to deal with the Swedish-Finish culture differences. According to Cloetta Fazer, these differences were difficult to measure before the merger, since it is not possible to know how people work together. In old Cloetta and old Fazer management styles were different, which can be seen for example in the meetings. Differences in meeting practice, language, and decision-making, have caused some conflicts. It happened that people from the different companies, and different countries, didn’t understand each other in the meetings. The reasons can be several. Key management practises in Fazer were: fast decision making and shorter negotiation time than in Cloetta, Finnish people are used to say things like they are while Swedes are more polite, and avoid conflicts. There are also language problems, which makes conversation harder for some people. The Swedish way of looking on a problem from every corner frustrates Finns.
The choice of which organizational model to have, created a lot of discussions led to the model that was correct, and most appropriate. The choice of organizational model was discussed by the top management of each company, also called the fusion steering group, who went through the organizational model. After that, the decision was made in the corporate management, and then continued with using “Affarsakademi” which means that all Cloetta Fazer’s 60 managers get together two-three times per year, in order to have a seminar, in which they go through certain questions, and by that try to have a common thinking. The seminar also involves questions concerning culture, like the fact that Finish people are faster in making decisions, while Swedes tend to conduct projects better. These are some questions that are handled, and they do it in order to try to understand why it is in a certain way, and how they can develop or improve if necessary. However, it took a long time for people to adjust to the new model, and Kenneth Sorderholm thinks that still there are difficulties in adjusting to the model, despite the fact that the merger took place seven-eight years ago. According to Kenneth, it is difficult working in a matrix organization as the employees have to report to two directors.

In the frame of reference both Vaara (1999) and Trice and Beyer (1993) argue that national environments clearly influence organisational cultures. Vaara argues that different national systems influence an organisation and all the people at Cloetta and Fazer were members of their own national system. We believe that the fact that all of the Cloetta managers that were Swedish and had Swedish educational backgrounds, while the Fazer managers were Finnish and had Finnish educational backgrounds, has influenced them just as much as their companies. Both Cloetta and Fazer were national companies, although Fazer was exporting more abroad and had a factory in Poland, with the most important functions in their home countries.

Management style

Similarities in Nordic management

Thygesen Poulsen (Lindell & Arvonen, 1996) talks about a Nordic human view and co-operation between individuals. Olsen (Ibid.) emphasizes a feeling of interdependence and confidence as the basic reason why the Nordic people feel able to speak in favour of joint
solutions, which appears reasonable and just. Often consensus is considered the feature, which characterises the Nordic countries. It has provided Finland, Norway and Sweden with a great comparative advantage: the ability to solve social problems peacefully. (Ibid.)

**Differences in Nordic management**

In the research of Lindell and Arvonen (1996), they reach the final result that within the Nordic countries that there were significant differences in employee and task oriented dimensions. Their main findings indicate therefore that Nordic management behaviour is not homogeneous. Lindkvist (Lindell & Arvonen, 1996) also came to the conclusion that there are cultural differences within the Nordic countries, which neither can nor ought to be neglected. At the same time he argued that it is relevant to talk about a Nordic management culture.

**5.2.4. Conclusion**

The merger success met by Cloetta Fazer is not hazardous; several factors were in favor for the integration process. First of all, both companies were considered as equal during the merger, there was no attempt to take over the control of the new organization. The deal was clear for both companies. Also, the pre-merger has been conscientiously prepared from both sides. They studied carefully each department in order to depict the realizable opportunities and to achieve the possible synergies. Furthermore, Cloetta Fazer created a corporate identity which characterizes, partly, the corporate culture. Therefore, each employee could refer to the new shared values. People were aware of the existence of a new corporate culture with new vision and direction. Plus, Cloetta Fazer recognized the importance of the human factor by identifying the different competencies and the key individuals in order to integrate them efficiently. Also, the social issues were handled in a peaceful atmosphere and both sides were able to compromise when necessary. Similarly, they planned conferences between top-executives to first highlight the best practices from both sides that existed before the merger and then to understand why they were better in that field. These practices were then implemented in the whole organization.
Chapter 6: Concluding remarks

International mergers are trickier than domestic mergers as differences in corporate culture, different compensation policies and organisational structures are major challenges for the management which have to be managed in detail (Blaško, Netter and Sinkey 2000). According to our analysis we came for the conclusion that culture is the critical factor in an integration process. The purpose of this study has been to define different aspects of corporate culture that lead either to success or failure of mergers and acquisitions. Chapter 4 describes some cultural challenges that leaders face during M&A. In this last chapter, we review and discuss the contents and issues of the thesis. After that we will try to make some recommendations and solutions where it is possible. First of all, we will start with Daimler Chrysler case (failure) and continue with Cloetza Fazer case (success).

Daimler Chrysler

As we can see in the case of the Daimler Chrysler merger cultural differences turned out to be greater than previously expected. We would like to admit that cultural differences can break the combination of two business partners even if they have at the first view the right fundamentals for a successful merger. Complementing one another on paper is not enough as employees who have to work together is the prerequisite to turn the merger into a success. Poor communication and the inability to manage cultural differences are the main reasons why many international mergers fail (Rodgers 1999).

Daimler Chrysler was less worth after the merger than the previous Daimler-Benz value. To our mind, for successful mergers, leadership strategies and leadership skills or quantum skills, which enable managers to bridge cultural diversities, have to be applied. According to Shelton, Hall and Darling (2003) these quantum skills consist of seven sub-s skills:

Quantum seeing is the ability to see internationally while only focusing on things which support the needed results. Managers of Daimler Chrysler should have applied these skills by involving stakeholders in a dynamic vision creating process. They should have also realized that employees are not involved in that process and therefore they are not able of seeing and
creating new organizational possibilities. They stayed resistant to old habits and they did not commit to new ways which make the merger successful. In this way targeted synergies could not be achieved.

**Quantum thinking** is the ability to think paradoxically. According to mergers slower is sometimes faster, less is sometimes more and bigger is not always better. The DaimlerChrysler merger should be planned and processed slowly for building up relationships and for designing smaller organizational units. This structure would have encouraged people to communicate with each other and to create a sense of community. Thus, employees of both companies would have been more committed to that change.

**Quantum feeling** is the ability to feel vital and energized no matter which external circumstances exist. Employees were not vital and energized during the merger, thus many Chrysler key people left the company. The post-merger time is characterized by stress and the lack of energy. Later the DaimlerChrysler National Training Center improved the situation with initiatives where employees were vitalized by recognizing their talents. Managers recapture their vitality by appreciating and encouraging innovation rather than focusing on problem-solving.

**Quantum knowing** is the ability to know something intuitively. Daimler Chrysler’s managers focused more on data analysis than on intuitive decision-making. Data is connected with fear, thus wrong decisions, based on data, were made instead of acting intuitively and achieving economies of scale and efficiency (Shelton, Hall and Darling 2003).

**Quantum acting** is the ability to act responsibly concerning the whole system. One person’s decision influences another person’s decision as well. Every action has a correlated reaction. DaimlerChrysler did not act responsibly while calling the merger a ‘merger of equals’. Therefore Kirk Kerkorian, one of the largest shareholders, sued the company of $1 billion, because he realized that his initial compensation under merger rules was much less worth than during the actual acquisition. DaimlerChrysler’s chairman Schrempp admitted during an
interview that he only wanted to make Chrysler a division of Daimler (The New York Times 2003).

**Quantum trusting** is the ability to trust happening processes in life even if it is very chaotic. Organizations go through good times and bad times. German leaders were better at long-term thinking than their American counterparts. Successful leaders should detach emotions from chaos and they should remember to look far foresighted and that chaos will pass over.

**Quantum being** is the ability to create and maintain relationships. An organization is very much dependent on relationships, no matter if there are conflicts involved or not. A company can learn from relationships with conflicts in order to be wiser in future or to avoid any mistakes in future (Shelton, Hall and Darling 2003). Profits are the result of relationships. At DaimlerChrysler there were many unresolved issues for both sides and thus conflicts occurred finally e.g. in the compensation policy as explained above. DaimlerChrysler should have more realized the power of relationships to integrate the best elements of both cultures (Shelton, Hall and Darling 2003).

If the DaimlerChrysler managers would have understood these quantum skills, the whole merger process could have been processed more successfully.

Analyzing cultural challenges which leaders of Daimler Chrysler faced we would like to make some recommendations which are vital for managers who are involved in merger’s process. They are:

**Managing cultural differences** – sensitivity and awareness of cultural differences are vital to prevent any cultural clashes or misunderstandings between the employees of both merging partners. In this manner also language barriers need to be considered and, therefore, language courses should be provided to overcome these barriers (Key Strategy 2003).

**Extensive and regular communication** – clear and honest communication including planned changes is central at all hierarchical levels of both merging companies during all merger phases (Suh-kyung Yoon 2001) in order to avoid confusion and rumors.

**Effective planning** – careful and early planning with realistic objectives and reasonable timeframes should include all relevant aspects of both merging companies, such as people,
systems and organizational procedures. The planning should also include ways how to align systems, work structures and processes and also their implementation (Key Strategy 2003).

**Retaining key people** – keeping talented and skilled workforce, especially at Chrysler, is also important because they are a major asset of a company. People stay loyal to their company if internal communication is guaranteed (Key Strategy 2003). “Don’t expect employees to show loyalty if the employer does not act with the utmost integrity and sensitivity” (Harrison 2001).

**Training and development** – Senior and middle management should receive some training which focuses on merger activities. This gives a better understanding of merger processes and it results in a more effective leadership (Key Strategy 2003).

Through the popularity of the DaimlerChrysler merger which was often analyzed and discussed in public and by different analysts, it will be assumed that future cross-border merging companies will more consider the importance of the alignment of cultural differences, as the merger success is heavily dependent on it. Therefore it will be supposed that in this point future mergers will not struggle that much anymore as managers learned from previous failures made by merging companies in the past.

According to Adler (1991, p.67) companies being involved in international business should “assume difference until similarity is proven”.

**Cloetta Fazer**

As far as Cloetta Fazer is concerned, it is necessary to say that the company satisfied the conditions leading to a successful merger. Since Cloetta Fazer wanted to gain more market shares within its industry, the organizational direction and shared purpose were present in this case. Cloetta Fazer had collaboration together before the merger and had the time to get to know each other well before the merger took place.

Nevertheless, there were some organizational differences that company needed to take into consideration. First of all, Cloetta and Fazer had quite different organizational models before the merger. Cloetta Fazer’s organizational culture differed from companies’ previous cultures. Fazer was a family-company with a long-term planning thinking where quality most often came before profit, and Cloetta was listed on the stock market and was very result oriented. As for national culture between Finland and Sweden we would like to mention that
although there is very much in common between the Nordic cultures and there is an interest both in politics and business to co-operate with each other, there are some differences. Language may be one of the differences. Vaara (2001) pointed that all the managers involved in Cloetta Fazer merger process were very "Nordic" in the beginning, when all the things were running well, but when problems came they were not so "Nordic" anymore.

It seems that Fazer was not a typical Finnish company when the management style is analyzed. According to Hansson and Sunnanångs (1998), Finns are short term oriented and effective. In Fazer it seemed to be the other way around. There profits have not been the most important issue but the quality of the products and long term planning. Hansson and Sunnanångs (1998) continue that in an organisation Swedish personnel work as colleagues with the boss while Finns have a stronger authority. In Fazer, the truth is not like this, management is more on the same level. As Hansson and Sunnanångs (1998) say Swedes are planning carefully and organising whereas Finns are more spontaneous and flexible, that is pretty much true in Cloetta and Fazer cases when concerning management styles. As mentioned earlier some meetings are really heavy for Finnish people because Swedes want to discuss everything very carefully. Hansson and Sunnanångs say that in organizations Swedish people have a common melody and they share responsibility in a group while Finns are more formal and individual. As defined by the general opinion (e.g. Hansson & Sunnanångs 1998) a typical Finnish company is very much top-down controlled, short term oriented Swedish people are used to, in both business and private life to avoid conflict, while Finns instead may cause more conflict situations with their direct comments.

In Sweden decisions are done together with the group while in Finland the boss makes decisions. Research results continue by telling that Swedish people prefer to be like all other while Finns are more individual. One interesting point is where are Swedish are described to concentrate for long time and quality, while Finns are said to be short term oriented and effective. Cloetta again had a different corporate culture. Cloetta was seen as a company with a happy overlay. Original location, in Ljungsbro may have an influence for that. A little bit surprising Finnish managers say that Cloetta is less democratic than Fazer. Generally Swedish companies have been seen management on a level close to the employees, but some former Fazer managers didn't agree.
As we can see in the analysis, Cloetta Fazer was aware of the cultural differences that can arise when a merger was taking place. This is something that can be helpful and also that companies and managers have to be more prepared for possible misunderstandings and that staff can have difficulties to communicate with each other.

In Cloetta Fazer, there were a lot of discussions about which type of organizational model that could be used and that it is still difficult adjusting to the new model despite the fact that the merger took place about seven-eight years ago. One possible aspect of this can be that both Cloetta and Fazer had a long history within chocolate and confectionary industry and also that it is between two companies that have a strong organizational model. For them it would be better to start with a new organizational structure to make the merger work.

In view of the above discussion, the following conclusions can be made:
- It is significant for the companies to have a common goal
- For companies that enter into the merger, it may be better to form a totally new organizational model than use one of the old models
- Cultural differences are important to be aware of and not ignore them
- Companies that have collaboration with each other before entering a merger have a better chance of success
- Involving the employees early in the process is important to make them feel they are part of the merger process.

Nevertheless, this case study proves that cross-boarder mergers can succeed. Like in Cloetta Fazer, leaders have to stand in favour of true merger of equals, an open communication based on honesty and on managing cultural differences. This means to take advantage on the possible synergies between both cultures. There are three strategies that permit to do so:
- Parochial approach: this strategy ignores the existence of the cultural differences and imposes the way of doing things as the best solution.
- Ethnocentric approach: in this case, the leader recognizes the existence of cultural differences but left them aside as they are a source of conflicts. He or she still imposes the best way of doing things (like in Daimler-Chrysler)
- Synergistic approach: it means that the existing differences are recognized and from them synergies are created. This approach if featured with good and honest communication of
the merger activities will decrease the post-merger employees’ anxiousness, create a new strong identity and consequently prevent from the employees departures.

The last approach was the one adopted by Cloetta Fazer. Both companies found the best way to deal with the cultures differences; they took the best of both cultures and created a new and shared culture. We admit that this task is extremely difficult but possible by requiring a strong leadership, but not autocratic, that will deal with the cultural issues and get people of both side involved in the new cultural synergies. The differences between national cultures can be studied in several models of culture, for example Hofstede’s or Trompenaars dimensions. Regarding the corporate cultures, Schein’s model is a good reference. Moreover, the cultural integration process and the creation of cultural synergies are time consuming and demanding. So, first it is necessary to identify the source of cultural differences and to treat the partner’s ones respectfully. To do so, that is to recognize the possible sources of cultural clashes, it is vital to implement a “cultural due-diligence” during the pre-merger phase. Also, during that period, the cultural leader has to prepare an adequate “the integration plan” as described by Dr. Ross. Furthermore, Leaders involved in merger or acquisition can no longer confine their tasks and responsibilities to the four basic managerial roles: planning, leading, controlling and organizing. Instead, the four variants of cultural leadership should be added: leadership that creates, changes, embodies, and integrates cultural elements” which will allow the leaders to conduct an effective post-merger leadership cultural integration. The “normal skills” must be exceeded because they are also concerned by challenging their own practices which are rooted in the national and organizational cultures. They must be willing to adapt their procedures to the new environment.
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