Cultural changes during the integration process of cross-border acquisitions – an exploratory study of German-Korean acquisitions

I. Joens, University of Mannheim, Germany
F. J. Froese, Waseda University, Tokyo, Japan
Y. S. Pak, Ewha Womans University, Seoul, Korea
Cultural changes in cross-border acquisitions

- Introduction
- Theoretical background
  - M&A processes
  - Cultural differences and integration
  - Hypotheses: Cultural differences and changes
- Study of two German-Korean acquisitions
  - Methods: Population, sample, measures
  - Descriptive results: evaluation of the acquisitions
  - Results: Comparison of cultures by nations and by integration strategies
- Conclusions
Introduction

- Globalization and economic growth in developing markets
  ➔ increase of international mergers and acquisitions (M&A)

- Cultural differences as a major factor for M&A success
  ➔ increase of stress and turnover
  ➔ decrease of job satisfaction and commitment

- Various approaches (cultural fit, acculturative stress), but inconsistent results in empirical studies

- Focus of this study:
  ➔ the influence of culture and integration strategies
  ➔ in M&A processes as perceived by the employees
Theoretical background: M&A perceived by employees

kind of M&A (power symmetry; degree of integration)

- two companies with different culture, structure and strategy
- employees with different jobs, positions ...

process of M&A (information, participation)
changes by M&A (strategy, structure, culture)

- involvement / stress
- satisfaction with the process/results
- future perspectives and commitment

before changes after

national and international M&A

Cross-border acquisitions, p. 4
Theoretical background: Cultural differences and integration

- **Organizational culture**
  - is rooted in national culture (Very et al., 1993)
  - the beliefs and values shared by employees (Schein, 1985)
  - dimensions: **strategy, structure, interaction (leadership – cooperation)** (e.g. Becker & Langosch, 2002)

- **Korea in comparison to Germany** (Hofstede, 2001):
  - **low masculinity** (strategy: less competition orientated)
  - **uncertainty avoidance** (structure: more bureaucratic)
  - **high power distance** (leadership: more authoritarian)
  - **low individualism** (cooperation: higher team orientation)

- **Cross-border M&A**: the cultures will to some extent converge

- **Types of acculturation** (Nahavandi & Malekzadeh, 1988):
  - integration – assimilation – separation – deculturation
  - **assimilation**: acquiring company fully absorbs the acquired
  - **separation**: acquired company remains almost unchanged
Hypotheses: Cultural differences and Change

• **Hypothesis 1:**
  Organizational culture is influenced by national culture.

• **Hypothesis 2:**
  Application of the assimilation model of acculturation, on the part of the acquiring company, produces stronger cultural changes in the acquired company in comparison to separation.

• **Hypothesis 3:**
  National culture differences influence the perception of cultural change during the process of post-merger integration.
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Methods: Population and sample

• **Germany (2001/2002):**
  – 104 cases out of more than 600
  – acquired by German companies
  – not specified by integration strategy

• **Korea (2003): two companies, 148 cases**
  – acquired by German multinational companies, to enter the Korean market combined with their global expertise
  – implementation of new computer and data systems, equipment, product innovations and training according to their global standards

• **Manufacturer (separation): 88 cases**
  – kept most senior managers, slightly changed HRM
  – without intention to change the organizational culture

• **Service provider (assimilation): 60 cases**
  – Replaced almost all top and senior managers by expatriates
  – changed the HRM dramatically (e.g. leisure budget almost cut to zero)
Methods: Measures

- **Organizational culture** (Joens, 2002, based on Hofstede, 2001; Kobi & Wuethrich, 1986) with 4 dimensions:
  - **Strategy**: performance, product, customer, innovation
  - **Structure**: hierarchy, bureaucracy
  - **Leadership**: responsibility, information, trust, decision making
  - **Cooperation**: individualism, competition, trust

Likert scale (1 = strongly disagree to 7 = strongly agree)
Cronbach’s alpha: German: .74-.84, Korean: .53 -.75

- **Evaluation of M&A** (modified from Cammann et al., 1983; Buono & Bowditch, 1988):
  - **Information**: negotiations, company / job changes, partner company
  - **Involvement**: stress, changes, new challenges, conflicts
  - **M&A satisfaction**: cultural / structural changes, process / result

Likert scale (1 = strongly disagree to 5 = strongly agree)
Cronbach’s alpha: .75-.88
Results: Information, involvement and M&A satisfaction

Means; 1 = low to 5 = high

Information

Involvement

M&A satisfaction

Germany
Manufacturer
Service Provider

Cross-border acquisitions, p. 10
Joens, Froese, and Pak
Hypotheses: Cultural differences and Change

- Hypothesis 1:
  Organizational culture is influenced by national culture.
  Expected differences in the Korean and German samples before the M&A following Hofstede.
Results: Comparison of culture before M&A - nations

Means; 1 = low to 7 = high

- Competitive Strategy (G – K)
  - Germany: 5.4
  - Korea: 4.3
- Hierarchical Structure (G – K)
  - Germany: 3.6
  - Korea: 5.2
- Authoritarian Leadership (G – K)
  - Germany: 3.2
  - Korea: 4.3
- Individualistic Cooperation (G – K)
  - Germany: 3.1
  - Korea: 3.5

\[(G – K) = t\text{-value} \ p < .05\]

Not conform
Results: Comparison of culture before M&A - companies

Means; 1 = low to 7 = high

- Competitive Strategy
- Hierarchical Structure
  (M – SP)
- Authoritarian Leadership
- Individualistic Cooperation
  (M – SP)

(M – SP) = t-value p < .05

Esp. M not conform

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Joens, Froese, and Pak
Hypotheses: Cultural differences and Change

• **Hypothesis 1:**
  *Organizational culture is influenced by national culture.*
  Expected differences in the Korean and German Samples before the M&A following Hofstede.

• **Hypothesis 2:**
  *Application of the assimilation model of acculturation, on the part of the acquiring company, produces stronger cultural changes in the acquired company in comparison to separation.*
  Significant and higher differences of culture before and after M&A for the Service provider in comparison to the Manufacturer.
Results: Comparison of change of culture by M&A - companies

Means; 1 = low to 7 = high

Competitive Strategy
(M – SP)

Hierarchical Structure
(M – SP)

Authoritarian Leadership

Individualistic Cooperation
(M – SP)

(M – SP) = t-value p < .05

SP not conform
Hypotheses: Cultural differences and Change

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  Significant and higher differences of culture before and after M&A for the Service provider in comparison to the Manufacturer.

- **Hypothesis 3:**
  National culture differences influence the perception of cultural change during the process of post-merger integration.
  Expected inverse directions of change (converging) for the Service provider in comparison to the German sample.
Results: Comparison of change of culture by M&A - companies

Means; 1 = low to 7 = high

Competitive Strategy
(G – SP)

Hierarchical Structure
(G – SP)

Authoritarian Leadership
(G – SP)

Individualistic Cooperation

(G – SP) = t-value p < .05

extremely inverse

SP extremely inverse

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Results: Comparison of change of culture by M&A - companies

Means; 1 = low to 7 = high

Competitive Strategy
(G – SP) (M – SP)

Hierarchical Structure
(G – SP) (M – SP)

Authoritarian Leadership
(G – SP)

Individualistic Cooperation
(M – SP)

(G – K), (M – SP)
= t-value p < .05
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Conclusions: Results

- **Organizational culture is influenced by national culture.** Confirmed the differences - except individualism. Korean rate similar - except structure and partly cooperation due to different industries.

- **Cultural changes differ depending on the model of acculturation or integration strategy on the part of the acquiring company.** Confirmed - except leadership without change in the Service provider. That might be due to two contrary impacts - less authoritarian style of German managers but more directive leadership in change processes.

- **National culture differences influence the perception of cultural change during the process of post-merger integration.** Confirmed by different directions: German-Korean Service provider as expected according to assimilation models - adopting German values; German-German express cultural clashes and impact of process.

- **Satisfaction with the M&A** does not only depend on the experienced personal and cultural changes but also on the expected cultural changes. That might explain the small differences between the samples.
Conclusions: Limitations and Implications

- Limitations due to
  - mixed samples for Germany and only two Korean companies
  - retrospective measurement of cultural change
  - German questionnaire esp. culture scales

- Implications for further research
  - predictions are only possible country specific or for cultural clusters before M&A (Very et al., 1986)
  - regarding cultural differences and integration strategy
  - esp. the intended by the acquirer, experienced and expected changes by the acquired (Nahavandi & Malekzadeh, 1988)
THANK YOU FOR YOUR ATTENTION

I. Joens, University of Mannheim, Germany
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Results: Comparison of culture after M&A - companies

Means; 1 = low to 7 = high

(M – SP) = t-value p < .05

Competitive Strategy (M – SP)

Hierarchical Structure (M – SP)

Authoritarian Leadership

Individualistic Cooperation (M – SP)
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Items</th>
<th>German Before M&amp;A</th>
<th>German After M&amp;A</th>
<th>Korean Before M&amp;A</th>
<th>Korean After M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>4 items: performance, product, customer, innovations</td>
<td>.83</td>
<td>.84</td>
<td>.69</td>
<td>.67</td>
</tr>
<tr>
<td>Structure</td>
<td>2 items: hierarchy, bureaucracy</td>
<td>.74</td>
<td>.79</td>
<td>.68</td>
<td>.53</td>
</tr>
<tr>
<td>Leadership</td>
<td>4 items: responsibility, information, trust, decisions</td>
<td>.79</td>
<td>.81</td>
<td>.75</td>
<td>.69</td>
</tr>
<tr>
<td>Cooperation</td>
<td>3 items: individualism, competition, trust</td>
<td>.77</td>
<td>.84</td>
<td>.57</td>
<td>.55</td>
</tr>
</tbody>
</table>
### Table 2  Information, involvement and M&A satisfaction

<table>
<thead>
<tr>
<th></th>
<th>Manufacturer Mean (SD), n = 88</th>
<th>Service provider Mean (SD), n = 60</th>
<th>German Mean (SD), n = 104</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td>2.09 (0.78)</td>
<td>2.13 (0.82)</td>
<td>2.92 (1.05)</td>
</tr>
<tr>
<td>Involvement</td>
<td>2.72 (0.89)</td>
<td>3.76 (0.58)</td>
<td>3.16 (1.01)</td>
</tr>
<tr>
<td>M&amp;A Satisfaction</td>
<td>2.64 (0.65)</td>
<td>2.64 (0.67)</td>
<td>2.55 (0.87)</td>
</tr>
</tbody>
</table>
## Table 3  Comparison of cultural values before the M&A

<table>
<thead>
<tr>
<th></th>
<th>German Mean (SD)</th>
<th>Korean Mean (SD)</th>
<th>T-value</th>
<th>Manufacturer Mean (SD)</th>
<th>Service Provider Mean (SD)</th>
<th>T-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>5.38 (1.06)</td>
<td>4.27 (0.89)</td>
<td>8.68*</td>
<td>4.37 (0.87)</td>
<td>4.13 (0.90)</td>
<td>1.59</td>
</tr>
<tr>
<td>Structure</td>
<td>3.57 (1.74)</td>
<td>5.16 (1.17)</td>
<td>-8.10*</td>
<td>4.66 (1.14)</td>
<td>5.88 (0.76)</td>
<td>-7.73*</td>
</tr>
<tr>
<td>Leadership</td>
<td>3.17 (1.28)</td>
<td>4.27 (1.10)</td>
<td>-7.33*</td>
<td>4.42 (1.11)</td>
<td>4.05 (1.06)</td>
<td>2.07</td>
</tr>
<tr>
<td>Cooperation</td>
<td>3.11 (1.14)</td>
<td>3.47 (0.92)</td>
<td>-2.74*</td>
<td>3.83 (0.86)</td>
<td>2.93 (0.73)</td>
<td>6.67*</td>
</tr>
</tbody>
</table>

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## Table 4: Comparison of cultural changes after the M&A

<table>
<thead>
<tr>
<th></th>
<th>German</th>
<th>Manufacturer</th>
<th>Service Provider</th>
<th>T-values of change of Service P. and</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean (SD)</td>
<td>Mean (SD)</td>
<td>Mean (SD)</td>
<td></td>
</tr>
<tr>
<td>After M&amp;A</td>
<td>Change</td>
<td>After M&amp;A</td>
<td>Change</td>
<td>Change</td>
</tr>
<tr>
<td>Strategy</td>
<td>4.77 (1.37)</td>
<td>-0.61* (1.45)</td>
<td>4.43 (0.91)</td>
<td>0.07 (0.45)</td>
</tr>
<tr>
<td>Structure</td>
<td>5.54 (1.39)</td>
<td>1.97* (2.32)</td>
<td>4.49 (1.05)</td>
<td>-0.17 (0.77)</td>
</tr>
<tr>
<td>Leadership</td>
<td>4.00 (1.56)</td>
<td>0.84* (1.93)</td>
<td>4.36 (1.07)</td>
<td>-0.06 (0.53)</td>
</tr>
<tr>
<td>Cooperation</td>
<td>4.21 (1.42)</td>
<td>1.10* (1.83)</td>
<td>4.06 (0.83)</td>
<td>0.23 (0.55)</td>
</tr>
</tbody>
</table>

Note: Change = Before M&A – After M&A; * in this column implies that the Before M&A and After M&A values are significantly different (p < 0.05)