

first publication

## Introduction

Even in the »cruel and hard world« of business such soft, intangible elements as culture play an important role. Like it or not, all business organizations have their distinctive way of solving problems, treating employees, passing the traditions etc. This is called »organizational culture« by organizational and management sciences.

Moreover, corporations of any kind cannot escape the social environment, what surrounds all their activities. With the ever increasing internationalization of companies the role of national culture on business is argued. Multinationals experience serious cultural shocks because of their cultural blindness. However the most efficient ones are all well prepared to take good use of the cultural differences within the organization.

Cultural clashes can occur, when two (or more) corporations are merging or one is acquiring the other. The process of acculturation requires very fine tuning of management methods from both parties. This paper tries to focus on the role of national culture in business processes, especially mergers and acquisitions.

## The Definition of »Culture«

»Culture« can be defined from many perspectives, according to the social science one is involved with. Naturally almost all studies in the related fields of social sciences tried to define culture in one way or another. One of the best known and probably the most used is the study made by Kluckhohn. He clearly distinguishes »culture« from the limited concepts of ordinary language, history and literature. The anthropological term designates those aspects of the total human environment, tangible and intangible, which have been created by men. A »culture« refers to the distinctive way of life of a group of people, their complete »design for a living«. Culture seems to be the master concept of American anthropologists. For ethnologists, folklorists, and anthropological linguists, archeologists, and social anthropologists, culture is always a point of departure or a point of reference if not invariably the point of emphasis.<sup>1</sup> Most anthropologists would basically agree with Herskovits's propositions on the theory of culture:

1. Culture is learned.
2. Culture derives from the biological, environmental, psychological, and historical components of human existence.
3. Culture is structured.
4. Culture is divided into aspects.
5. Culture is dynamic.
6. Culture is variable.
7. Culture exhibits regularities that permit its analysis by the method of science.
8. Culture is the instrument whereby the individual adjust to its total setting, and gains the means for the creative expression.<sup>2</sup>

After looking through more than a hundred definitions, Kroeber and Kluckhohn suggested a very comprehensive definition of »culture«:

Culture consists of patterns, explicit and implicit of and for behavior acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements in a future action.<sup>3</sup>

No individual thinks, feels or acts exactly as the blueprints which constitute a culture indicate he/she will or should. These blueprints of culture, created by society, are meant to apply to each individual. There still are generation, sex, occupational and other differences within the culture etc.

1 Kluckhohn, F.: The Study of Culture. Stanford: Stanford UP 1951.

2 Herskovits, M.J.: Man and His Works: The Science of Cultural Anthropology. New York: Alfred A. Knopf 1948.

3 Kroeber, A.L./ Kluckhohn, F.: Culture: A Critical View of Concepts and Definitions. Cambridge/Mass.: Harvard UP 1952 (Peabody Museum Papers. Vol. 47, no.1).



tional cultures. This view clearly implies that the distribution of national culture applies on the level of the nation, but also on the level of subcultures which constitute it. Hence subcultures are already identified with particular nations.

11 Nan 1996.

**Ethnocentrism**

12 Adler, N.J.: International Dimensions of Organizational Behavior. Boston: Kent Int. 1990.

Another significant problem that presents itself when studying cultures is finding comparisons and therefore defining the elements to compare. Even when trying to find these dimensions to compare we use our basic assumptions derived from our own culture. As Fortmann expresses this:

13 Ibid.

14 Nahavandi, A./ Malekzadeh, A.R.: Organizational Culture in the Management of Mergers. Westport/Conn.: Quorum Books 1993.

It has been said that if a fish could make discoveries, his last discovery would be the existence of water. Not until finding himself on the cart of a fish peddler would realize what it means to be a water-creature. It should therefore not come as a surprise to hear that until very recently has man discovered to what extent he has been shaped by the kind of culture surrounding him.<sup>11</sup>

Some other scholars call this phenomenon »cultural blindness«<sup>12</sup>.

Thus there has to be presumptions that there is always something to compare. Throughout the history of cross-cultural research there has been a dispute between those who emphasize comparable aspects and those who stress unique aspects. The debate is essentially a distinction between the unique, for example culture bound and the comparable, the specific and the general. It is like comparing apples and pears. On one hand you cannot compare them, on the other hand they are both fruits and therefore can be compared by size, color, taste etc. These selected aspects for dimensions of comparison naturally imply an *a priori* theory about what is important about fruits.

Adler defines the closely related phenomena as »parochialism«, which means »viewing the world solely through one's own eyes and perspective. A person with a parochial perspective does not recognize other people's different ways of living and working nor that such differences have serious consequences. People in all cultures are, to a certain extent, parochial.«<sup>13</sup>

**The Notion of Acculturation and its Environmental Factors**

The notion of acculturation has been long used by anthropology, psychology and cross-cultural management. Acculturation is the process »by which two or more cultures come in contact and resolve the conflict that arises as a result of this contact.«<sup>14</sup>

**Stages of Acculturation**

According to Nahavandi and Malekzadeh (1993) three stages of acculturation are distinguished. (Figure 1)

**How to Combine Two Organizations**

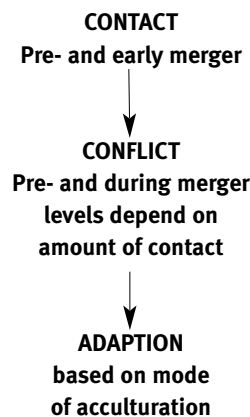


Figure 1  
Stages of Acculturation



### 1. *Contact*

The two organizations can come in contact in various ways. Legal and strategic aspects are crucial for the later relationship. The less intense the contact is between the two parties the less possibility of conflict occurs. However it is not typical that the two companies only become part of a common corporate umbrella, but no operational relations exist. No matter what kind of the merger is, the initial contact is likely to engender some level of conflict.

### 2. *Conflict*

As it was said above, the intensity of the relation is a determinant factor in the level of conflict. The possibility of high level conflict occurs when the relation of the two companies is on a daily basis and both cultures are strong. This can get even worse, when both parties happen to be from the same branch of industry and market (i.e. former competitors). In cases like this, companies try to defend their turf and way of life. The strength of the marrying cultures are significant. The more successful the merging organizations were before, the more high level conflicts are possible. In these cases people do not feel the necessity of changing the culture of the corporation they are involved with. In most cases, when it is about acquisition, the acquirer firm imposes operational and financial control over the acquired firm.

### 3. *Adaptation*

This stage demonstrates the final condition. Positive adaptation is achieved, when there is an agreement on cultural synergy as an objective. The stable and changing operational and cultural elements are defined and agreed. Both parties are satisfied, cultures were not harmed, which is promising basis for the future.

Negative adaptation is achieved, if one of the parties feels cheated and mistreated and continues internal resistance. This phenomenon is more typical in cases of long lasting and financially unsuccessful mergers and acquisitions.

### ***Modes of Acculturation***

As mentioned above, many acquiring firms tend to impose their culture on the other. Their culture is seen more valid to the business environment, since it is approved by success. The acquiring firm seems to be doing something better if it can afford the acquisition. (However acquisitions are far less rational business wise as one might think.) This cultural feeling of superiority naturally leads to more conflict. In spite of this many successful and unsuccessful acquisition prove that not assimilation is the only acculturation mode.

Modes of acculturation can be summarized as follows:

#### ***Assimilation***

This is one of the most common way of solving cultural conflicts. One of the parties – mostly the acquired firm – gives up its practices, procedures and business philosophies and becomes totally assimilated to the acquiring firm. The flow of cultural change is a certain way in this case. The willingness for assimilation is rooted in the inviability of the acquired culture. Therefore as a result of assimilation, the acquired firm is not only disappearing legally but culturally as well.

#### ***Integration***

As opposed to assimilation, in integration both parties keep their cultural identity. The flow of cultural change is not one way. The reason for this is the success (and therefore strength) of the other culture. The mother company structurally assimilates the acquired firm but provides cultural freedom and only exerts legal and financial control. In case of integration a mutual learning process occurs regarding cultures. The level of conflict is low, because the change of cultural elements is an open, transparent process.

#### ***Separation***

Separation is the process, when the acquired firm wants to keep its independence, and any attempt of intervention to operational or cultural issues is rejected. There is no willingness for any level of assimilation, which generates high level of conflict. In case of separation there is no contact, thus no change of cultural elements is traced. Separation can be the effective way of accul-

15 Nahavandi/ Malekzadeh1993.

16 Morosini, P.: Managing Cultural Differences. Effective Strategy and execution across Cultures in Global Corporate Alliances. Oxford: Pergamon 1998.

turation, when a small, successful organization is bought, and only the financial umbrella is needed. Very often, when such firms are assimilated, the core of their culture and business success is gone.

#### *Deculturation*

Deculturation is the least wanted way of acculturation both cultural and business wise. Culture and management of the acquired company diminish. The management and culture of the acquired firm are weak, but no intention of adaptation is shown. Very often this is due to the mismanagement of the acculturation process. Conflict and stress are all over the organization. In this case the acquiring firm manages the complete change of the management of the acquired firm, thus bringing new blood to the organization. Modes of acculturation and levels of conflict are shown in Figure 2.

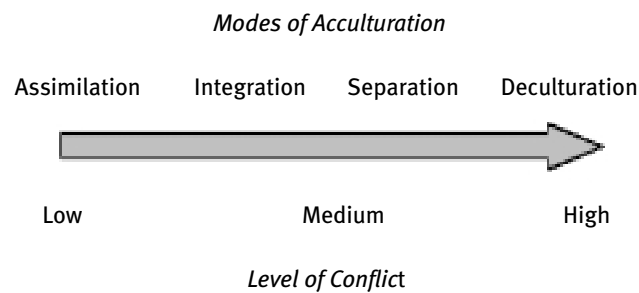


Figure 2  
Modes of Acculturation and Level of Conflict

Every organization, which merges with another one, goes through the process of acculturation. Four factors are influencing the acculturation process:

- Culture
- Strategy
- Structure
- Leadership<sup>15</sup>

Morosini<sup>16</sup> widens the framework of the acculturation process and its operational conditions. It is not only a management task, but the roots of national culture play an equally important role in the M&A process. The social environment in which the organization operates has a determinative influence on the methods-in-use. Therefore, beside the obvious internal and external factors, social embeddedness of the organization must be considered to thoroughly understand its market behaviour and the role of cultural values in the process.

The organization's social components include such aspects as:

- How the company executes complex coordination functions involving both internal and external resources?
- How it develops critical networks and learns within its community?
- How its people communicate and collectively foster a social sense of identity?

The importance of these skills increases, when resources must be coordinated in M&As within diverse national cultural frameworks. This knowledge is almost impossible to copy by competitors, it can only be gained through experience. Its uniqueness derives from the coordination mechanisms, which operate in diverse cultural barriers, and are only valid within a holistic perspective. This includes the knowledge itself and is surrounded by cultural symbols, metaphors and norms. All this is captured by the notion of the Greek expression ›gnosis‹. In case of companies, this ›gnosis‹ provides the pragmatic skills and knowledge, which every firm has to possess to stand the fierce competition and the cultural environment, in which the firm experiences under which conditions the knowledge works. This ›gnosis‹ cannot be benchmarked, it must be





20 Morosini 1998: Gertsen et al. 1998; Very et al. 1998.

21 Nahavandi, A./ Malekzadeh, A.R.: Leadership and Culture in Transnational Strategic Alliances. In: Gertsen et al. 1998, pp. 111-129.

22 Cartwright, S.: International Mergers and Acquisitions. The Issues and Challenges. In: Gertsen et al. 1998, pp. 5-17, here p. 11.

23 Tung, R.L.: Career Issues in International Assignments. In: Acad. of Management Executive 1 (1988), pp. 117-126.

24 Cartwright, S./ Cooper, C.L. Jordan, J.: Managerial Preferences in International Mergers and Acquisition Partners. In: Journal of Strategic Change 4 (1995), pp.263-269.

25 Vaara, E.: Constructions of Cultural Differences in Post-Merger Change Processes: A Sensemaking Perspective on Finnish-Swedish Cases. In: Management. Vol.3 (2000), pp. 81-110; Larsson, R./ Risberg, A.: Cultural Awareness and National versus Corporate Barriers to Acculturation. In: Gertsen et al. 1998, pp. 39-57.

### **Double Acculturation**

Based on experimental research many scholars argued that cross-border dimensions of M&As are further management challenge. Therefore it is not only the organizational level of culture which has to be taken into account but the national as well.<sup>20</sup>

It is interesting to note however that British and American scholars pay less attention to problems of cross-border co-operations. Many of them simply ignore these conflicts and problems or consider it over emphasized. In their point of view these transactions are still conflicts and collaborations of organizational cultures. Nahavandi and Malekzadeh acknowledge the existence of the two levels (i.e. the national cultural and the organizational cultural) and term the process as »double acculturation«. However, in their framework M&As are more considered problems of leadership and organizational culture than clash of national cultural backgrounds.<sup>21</sup>

This cultural blindness of the scholars from UK and USA is due to historical and geographical reasons. As Cartwright argues, »the rationale as to why Anglo-American researchers appear to have attached less significance to national culture than their European colleagues is in itself perhaps a reflection of the cultural differences between the two[.]«<sup>22</sup> She considers the following explanations for these differences:

- Both are individualistic cultures (especially the U.S.), thus, the U.S. administration and British government have traditionally adopted a role of minimal interference in business.
- The role of geography is also significant. Unlike many of the countries in mainland Europe, the US and the UK do not have multiple land borders, nor they have seen these boundaries change significantly over time.
- As multicultural societies, they are regarded, as having successfully assimilated and absorbed into their membership individuals from a variety of different national and cultural background.

She also adds that historically American companies entered the international business scene with partnerships mainly with UK companies. However it has also been demonstrated by Tung that U.S. managers have less cultural sensitivity and awareness, and so encounter more difficulties in understanding and adjusting to working in foreign countries than their European colleagues.<sup>23</sup>

Differences in national cultures are perceived to have implications not only for the selection process of the business partners but on a strategic level as well. It still seems easier and creates less conflict when day-to-day operations are run by people from similar cultures. Managers tend to appreciate when business activities are in comfort with their cultural perceptions, thus can be considered normal. This view of course shows signs of ethnocentrism.

Cartwright and Cooper argue that patterns of M&A activity tend to reflect managerial assumptions and perception as to the similarity and compatibility of different national cultures and business styles.<sup>24</sup> Research has shown that northern European companies from UK, Sweden, and Denmark would prefer to enter business partnerships with other Northern European and American firms. If possible, they would prefer to avoid alliances with Japanese and Southern European (Spanish, Italian) companies.

### **A Possible Solution: Cultural Synergy?**

An interesting phenomenon occurs, when examining the results of cross-border corporate M&As. International transactions of this kind tend to be more successful synergy wise. Partners involved in such processes are more aware of the possible challenges and conflicts than in domestic M&As due to their cultural openness and sensibility. Merging of two organizational cultures of similar kind in a domestic relation tend to be less successful, than the well prepared cross-border transactions.<sup>25</sup>

Vaara also recognizes the problem and perceptual differences in the management literature. Much of the literature in this field has endorsed the argument that cultural differences create problems in M&A processes. This view he labels as the »cultural distance« ideology. In international dimensions this means the already mentioned phenomenon, which was demonstrated



26 Morosini 1998; Krishnan, H.A./ Miller, A. / Judge, W.Q.: Diversification and Top Management Team Complementarity: Is Performance Improved by Merging Similar or Dissimilar Teams? In: Strategic Management Journal 18:5, pp. 361-374.

in research design as well that mergers between culturally closer national cultures indeed lead to better outcomes than those between more distant cultures.

Less attention has been paid to the contrary argument, that cultural differences can be the source of value. A few studies<sup>26</sup> illustrated that cultural diversity can benefit top management decision-making and M&As between culturally distant countries may outperform M&As of culturally closer countries.

This requires a strategic approach to the cultural side of mergers. The traditional cultural awareness approach can only lead to the recognition of differences. In spite of this cultural synergy can be achieved, when in M&As a third, new culture is emphasized by the managers, not the differences of the existing two. The creation of a new culture can lead to less conflict than the melting of two. However this requires very sensitive fine tuning from the managerial side. Especially in case of international collaborations.



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