Master's thesis

The cultural paradox revisited: How the management of culture influences the success or failure of mergers and acquisitions

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Thesis presented in fulfillment of the requirements for the degree of Master of Management

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Executive Summary

The most urgent issue facing mergers and acquisitions (M&As) is the fact that despite the apparent best efforts of both sides, many fail to meet the original expectations. While this is a simple and known phenomenon, exactly why and how this occurs is less clear, making it difficult to tackle directly. One issue that continued to resurface in the initial investigations, both as an individual cause of M&A failure as well as an influence on other factors, is that of cultural differences and cultural conflict.

In many cases, these cultural differences are cited as the primary cause of a merger or acquisition failure. However, even when it is not evidently a cause of failure, cultural issues can negatively affect other of an M&A. For example, if cultural integration is not done appropriately it can affect how effectively departments work together and thus result in lost potential synergies. As a result of these initial findings, cultural issues, such as cultural differences, conflicts quickly became the focus of the thesis investigation.

While conducting the investigation into culture, it became clear that organisational and national culture were distinct concepts and thus had to be looked at individually. Another issue also became evident; clearly not all mergers or acquisitions failed, and regardless of whether they were domestic or international they would face cultural issues – so what were successful M&As doing that failed ones were not? The aim therefore became not only to identify the cultural issues in each case, but also to analyse the behaviour of management and how it affected the outcome of the merger or acquisition.

Initially a combination of interviews and cases was to be the chosen method, however, given the sensitivity of the topic, finding willing participants from the chosen companies proved extremely difficult. As a result of this, the approach was altered to use only case studies based on secondary data as the method for analysis. In order to be able to investigate both differences between national and organisational culture as well as differences in managerial behaviour between successful and failed M&As, it was necessary to investigate a number of cases, rather than just one or two. As a result, eight cases were chosen, meaning there were four different categories and each category would have two cases. The categories were; failed international M&As, successful international M&As, failed domestic M&As and successful domestic M&As.

The failure cases were chosen based on whether there appeared to be elements of culture that led to the failures, while the successful cases were chosen based first of all on the fact

that they were successful, and secondly on whether information about specific managerial actions that contributed to their success was available. Each case was approached in an analytical way, in the case of the international M&As both national and organisational differences were discussed, as were resulting cultural clashes. Any attempts of the managerial team to avoid cultural conflicts were also noted, such as planning and cultural integration attempts, as were reactions to conflicts that took place and their overall influence on the success or failure of the M&A is discussed. An additional goal of this thesis was to recognise other influencing factors on both the successes and failures investigated in the cases. As a result, and where applicable, other causes for failure or success (e.g. failure to create expected synergies) were noted.

Some broad themes that surfaced during the case studies were the importance of due diligence and a proper integration plan – without these firms often floundered and struggled to make the merger or acquisition work. Furthermore, cultural conflict appeared to arise primarily due to the mismanagement of cultural differences and the tensions they caused, rather than the cultural differences themselves. A number of additional factors which were not discussed in the literature review were identified to have an influence on the success or failure the cases, such as achieved synergies, recent experience with M&As and the level of autonomy allowed to the firm, among several other factors.

The key areas of importance that are highlighted by the cases and subsequent analysis are the importance of conducting due diligence and identifying potential cultural differences. Following this, creating an integration plan to not only prevent cultural conflicts but to tackle them as well is crucial. If cultural issues are not identified or are even ignored, then minor conflicts can quickly snowball into major ones, which may be detrimental to the success of the merger or acquisition. Furthermore, involving your employees and keeping them informed also proved to be crucial in the successful M&A cases, and failing to do so was a terrible mistake in the failed cases. This helps them to not only identify with the new firm, but also makes them more likely to trust the decisions that management are making and to support them. In general, prevention of too much cultural conflict is the goal, while awareness and proactive reactions to any conflicts that arise is the next best solution.

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Abbreviation	**Meaning**
AOL	America Online
BT	Bankers Trust
BP	British Petroleum
CEO	Chief Executive Officer
CIC	Chairmen's Integration Council
COO	Chief Operating Officer
CLT	Culturally endorsed implicit leadership theory
DB	Deutsche Bank
HP	Hewlett Packard
HR	Human Resources
ILT	Implicit leadership theory
JPMC	JPMorgan Chase
NIH	Not invented here
PEST	Political, economic, social and technical

Preface

When thinking about a potential thesis topic I primarily took inspiration from aspects of different classes I have enjoyed at UHasselt, as well as areas that interest me based on my previous studies. My interest in mergers and acquisitions was first sparked last year when I took the Innovation and Value Chain Management class, where we discussed both the reasoning behind M&As and how they can help firms to innovate. I have an interest in behavioural science and have previously studied psychology – this interest was triggered when discussing how cultures can influence behaviour in our international marketing class. After investigating how I could approach the topic of mergers and acquisitions from a cultural perspective, it appeared to be a real issue and a potential cause of failure for a lot of deals. After speaking to both Piet and Annika about the possibilities for the topic, I narrowed down my investigation to both the effects of culture and whether how it is managed can affect either success or failures of an M&A.

It was not the easiest topic, as I quickly learned, but one that I became truly interested in. I'm grateful to have had the support of a number of people who either lent an ear, a shoulder to lean on, or provided guidance to my otherwise sometimes chaotic thinking. I would first of all like to thank my promoter, Annika Lorenz, for providing guidance, feedback and assistance – particularly in helping me to approach the research area from a new perspective. I would also like to thank my family, friends, and particularly my boyfriend who were always there to listen to my complaints and reacted with encouragement, pushing me towards my final goal.

Chapter 1: Introduction

<u>1.1 Background of the Research Topic</u>

Mergers and acquisitions (M&As) have become an increasingly common event over the last few decades as the world is becoming more globalised, and they now occur throughout virtually every industry. They are a mechanism for achieving numerous different strategic objectives, whether it be growth, diversification or for economic reasons (Gugler et al, 2003; Schuler & Jackson, 2001).

That being said, the stakes are now higher than ever for many firms, with some of the biggest M&A transactions taking place in the last few years as can be seen in Figure 1.1, as well as more M&As taking place worldwide than ever before in history (see Figure 2.2). This trend is set to continue into next year, with the number of M&A deals remaining high (Fontanella-Khan & Massoudi, 2015; Golman, 2016). While this all sounds splendid, the fly in the ointment is that, despite the efforts of the firms, many of these M&As will ultimately fail - the ballpark figure among literature ranges between 50 and 80% (Bruner, 2004; Schoenberg, 2006; Cameron and Green, 2009).

Figure 1.1: Mergers & Acquisitions Mega M&A Deals
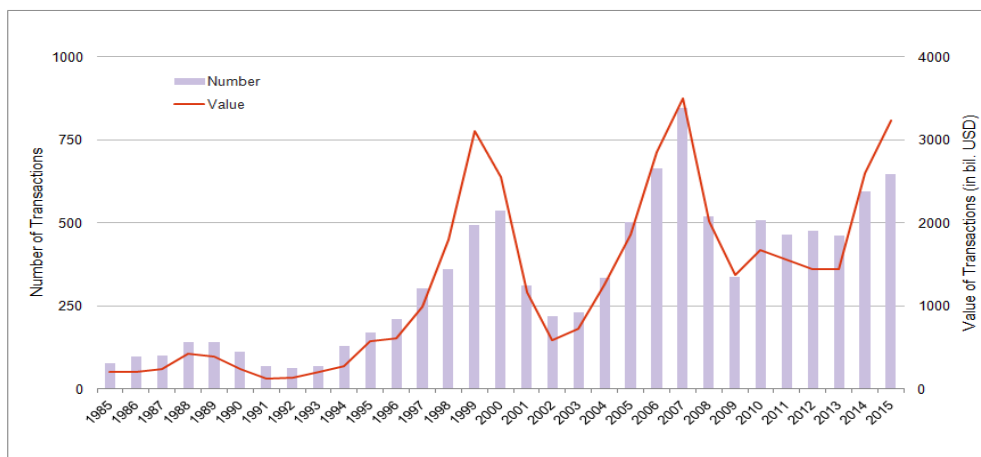
Source: Institute for Mergers, Acquisitions and Alliances (2016)

The reasons behind this 'failure phenomenon', as it is later referred to, have been investigated from a number of perspectives throughout previous literature - there is not just one single barrier to the success of an M&A. However, one area of particular managerial interest that continues to resurface is that of cultural differences (Finkelstein, Sydney, Cooper & Cary, 2013).

Despite often being overlooked during the M&A process, how the two firms handle cultural differences ultimately leads to whether they have issues with cultural conflict and can really make or break the success of the M&A in that respect (Appelbaum, Roberts & Shapiro, 2013). In fact, in a 2011 survey of top executives, 33% cited cultural integration issues as a primary driver of deal failure, while 41% cited integration issues such as it taking too long (Aon Hewitt, 2011) - something that has also been linked to cultural issues and will be discussed. Despite this, research has shown that many executives have virtually no plan to tackle cultural integration - this number is as high as 58% to 70% depending on the survey (Bouwman, 2013; Hill, 2005).

Clearly, the ball is just not hitting home as to how important culture is as managers continue to underestimate the influence it can have and neglect it during the M&A process (Weber & Camerer, 2003). This is particularly true in the case of organisational culture differences, which have a tendency to slip under the radar, more so than overt national culture differences (Larsson & Risberg, 1998). It may also be the case that many managers and executives do not know where to start with a cultural integration plan, which this thesis will attempt to remedy with recommendations after the case analysis.

One thing is certain, M&As are not going away, if anything they are becoming a more popular mode of expansion, so thinking about how best to tackle them successfully is something that all involved firms should do. To do this, they need to understand how cultural differences really affect an M&A and how they as management can neutralise the negative side effects, while keeping any positive ones. This is the culture conundrum, which this thesis will attempt, if not to solve, to gain some valuable insights in how managers can achieve this.

1.2 Problem Statement and Research Questions

As is evidenced by previous literature, a major problem in this area can be summarised in the following statement:

Mergers and acquisitions often fail because of cultural conflict between the firms.

The research on the topic of culture and cultural conflict in M&As has covered the tip of the iceberg, however much remains to be discovered. This leads to the following research question, and sub questions to be answered in this thesis:

How exactly does cultural conflict play a role in the failure of M&As, and what can management do prevent it?

- *Are there differences in how firms approach national culture differences as opposed to corporate culture differences?*
- *Do cultural differences always lead to cultural conflict within an M&A?*
- *How do firms tackle cultural conflict during the M&A process?*
- *Do firms' integration strategies differ based on culture?*
- *What behaviour differentiates the successful M&A firms from those that failed?*
- *What are the other main reasons for the failure of M&As?*

Chapter 2: Literature Review

2.1 Mergers and Acquisitions

In today's global and dynamic market place, it is increasingly important for firms to gain competitive advantages wherever possible. One way of doing so is through successful mergers and acquisitions (M&As). Although often described interchangeably, there is an important distinction between these two phenomena; a merger is when two firms combine to become one, while an acquisition is when one company effectively takes over another via majority share buyout (Straub, 2007). As a result, unlike during a merger, an acquired company may remain as a separate legal entity, despite the fact that ultimate control will lie with the acquirer.

2.1.1 Types and methods of mergers and acquisitions

Mergers and acquisitions have become an increasingly common event over the last few decades and now occur with increasing complexity throughout virtually every industry. However, not all M&As are the same, they may be done for different reasons or have different processes. In many cases, M&As are classified based on both the motives of the action and the relationship between the two parties (Brueller, Carmeli & Drori, 2014) which typically leads to 3 designations; horizontal, vertical or conglomerate M&As (Gaughan, 2002).

A horizontal M&A is when two firms in the same sector, i.e. *competitors,* merge or one takes over the other. The purpose of these M&As is to consolidate and improve the competitive position of the firm, and ultimately should result in an increase in the firm's market power (Gaughan, 2002). This may also have anticompetitive effects if the two firms were large and dominant enough, however in recent years this has been overlooked except in extreme cases. A few examples of this type of M&A are when Facebook acquired Instagram, another social media platform, for $715 million in 2012 or when Groupon acquired Citydeal for $170 million in 2010.

The second M&A classification is vertical, which occurs between two firms that have a *buyer-seller* relationship. The primary goal in such an M&A is to take advantage of economies-of-scale benefits and to lower transaction costs in the value chain, by reducing the number of intermediaries at play (Gaughan, 2002). One of the most famous vertical mergers was that of internet provider America Online and the media corporation Time Warner, which took place in

2000. It is considered vertical due to the fact that Time Warner created media content for consumers, while America Online distributed this via its internet service (Baca, 2008).

The third type of M&As are those that do not fall into the previous two categories; the conglomerate M&A. This essentially occurs when the two firms have no common business, yet pool resources for other reasons, e.g. to diversify their market offerings (Gaughan, 2002). A classic example of this type of M&A is Phillip Morris (a tobacco firm) who acquired Miller Brewing Co in 1970, General Foods in 1985 and Kraft in 1988, none of which had anything to do with tobacco.

These classifications help to understand not only how these M&As take place but also why, which in turn will help when analysing their reasons for success or failure. Another important distinction to make which does not fall into these three categories is whether the M&A is domestic or cross-border in nature. Cross-border M&As are when the two firms are based out of two different countries, and despite being an increasingly popular way to expand and compete in foreign markets, it is relatively understudied (Collins et al, 2009). Due to the nature of this thesis, this is an important distinction to make; if an M&A is cross-border, then other cultural elements, such as national culture come into play and should be taken into account when distinguishing why or how an M&A failed.

2.1.2 Motivations for mergers and acquisitions

Mergers and Acquisitions happen frequently, and at an ever increasing rate despite the fact that they have a high chance of failing (see section 2.2). The main reason for this is because they are a mechanism for achieving numerous different strategic objectives, and in some cases even allow firms to bypass certain obstacles - making the potential benefit worth the risk. In this section several of the most important motivations and their benefits are discussed.

In 2011, the human resource consulting company Aon Hewitt surveyed a total of 123 firms from around the globe, seeking insights on the role of culture and cultural integration during M&A activity. In Figure 2.1 we see the results of one particular element of this survey, which is the focus of the surveyed firms in terms of their immediate future M&A activity. This, in addition to the other literature that will be discussed, helps to give an overview of why firms engage in M&As in the first place and their initial goals once it has taken place.

Figure 2.1: Top two areas of focus in M&A activity over the next two years (% of respondents)
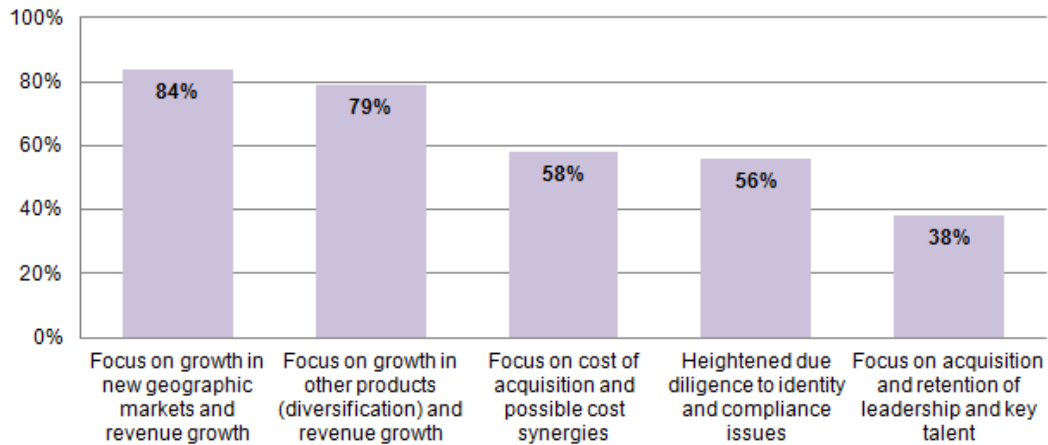
Source: Aon Hewitt (2011)

One of the most important and widely discussed motivations for M&As is growth (Gaughan, 2002; Brueller et al, 2014) and it is also the end game-goal of most M&As that take place (Cameron & Green, 2009). It allows for much faster expansion than organic growth would, due to the rapid acquisition of knowledge, skills, brands and many other assets, which can also give the firm an upper hand against competitors. Furthermore, when it comes to entering foreign, unknown markets, having a foothold there in the form of the acquired company can be a huge leap forward. As we can see in Figure 2.1, 84% of firms cited growing in new geographic markets as one of their main focuses when it comes to M&A activity, meaning it is also likely a primary motivation for engaging in this activity in the first place.

Another 'leap' that a merger or an acquisition can help a firm perform is a strategic realignment, in order to help a firm quickly adjust to a changing environment (DePamphilis, 2010). For example, changes in regulations and technology can stimulate M&As both as an aggressive (e.g. acquiring knowledge) and a defensive (e.g. improving efficiency) act. One such strategy is that of diversification, whether it be of be products or services. It allows a firm to go outside its traditional industry, into different product lines or markets that have more potential for growth (DePamphilis, 2010). Firms can even create portfolios of brands or other firms, such as takes place in the creation of a conglomerate (Cameron & Green, 2009). If successful, the acquiring firm stands to gain considerable market share (Gopinath, 2003) as well as reducing the risk they would normally face if they had all of their eggs in one basket.

An additional key motive for M&As is to achieve synergy by integrating multiple businesses. Synergy is the idea that, when working together (e.g. through a merger or an acquisition), firms

can '*generate greater value...than they could working apart*' (Calipha, Tarba & Brock, 2010:8). This value is created in several ways by the collective firms; namely increased market power, reduced outside threat, cost savings, increased financial capabilities and the ability to effectively take advantage of competencies of the firm (Carpenter & Sanders, 2007). Thus, when two firms join forces, their strengths are combined, making them more capable to face challenges in the marketplace than they would be apart - this is best described by Gaughan (2002) as the 2+2=5 phenomenon.

In addition to the points already mentioned, merger and acquisitions often bring with them considerable economic benefits that can act as a motivation for firms. An example of this is the increased efficiency, sometimes referred to as operating synergy, which can come from an M&A via either economies of scale or economies of scope (DePamphilis, 2010). Economies of scale refers to the comparative reduction of certain costs (e.g. depreciations, maintenance spending etc.) as production and output increases. Economies of scope on the other hand, refers to using a specific skill set to create more, related products or services in addition to those currently being produced. A simple example of this would be a car company such as Volvo, who also produce trucks, or Honda, who also produce motorcycles. In both economies of scale and scope, additional revenues are able to be produced, and if achieved via a merger or acquisition it is done with comparative speed and ease as opposed to being done organically (DePamphilis, 2010).

Although perhaps not a primary motivation, tax incentives can also provide an extra stimulus for firms to participate in an M&A. Depending on the financial methods used, the capital gains from an M&A transaction may be deferred, allowing it to take place tax free (Gaughan, 2002). Sometimes this is even considered a prerequisite to the deal, as otherwise the selling price is higher to offset the taxation costs (Ayers, Lefanowicz & Robinson, 2003). Furthermore, there are also tax benefits that accrue to the acquiring company after the deal is made (DePamphilis, 2010), for example investment tax credits or loss carry forwards may be used as a tax buffer to reduce the taxable profit of the acquirer the following year.

2.1.3 The evolution of mergers and acquisitions

Just as with the economy, the nature of business is never stagnant for long; it is constantly changing and evolving based on other factors in the environment. Mergers and acquisitions are arguably as old as business itself, although their recorded history starts in the late 19th century. As seen in Table 2.1, they too follow a pattern of evolution; with their rationale, motivations and outcomes changing over time. They also have a tendency to occur in relatively

short waves of intense activity, in which over 50% of all M&As take place (Faulkner, Teerikangas & Jospeh, 2012). Table 2.1 depicts these waves, why they occurred and what their outcome typically was for the firms involved. Interesting to note, is the shift in performance effects of M&As seen over time; for acquiring firms they seem to get worse - this may be in part to the relatively high failure rate M&As currently have.

Table 2.1: Merger and Acquisition Waves

	First Wave	**Second Wave**	**Third Wave**	**Fourth Wave**	**Fifth Wave**
Time Frame	1897-1903	1920-1929	1960-1973	1980s	1990-2001
Location	US	US	US, UK, Europe	US, UK, Europe, Asia	US, UK, Europe, Asia
Value (Billion $)*	6.9	7.3	46	618	4,500
Number of Deals**	3012	4828	N/A	9617	31,152
Reasoning	Creating monopolies	Creating oligopolies	Growth through diversification, managerial self interest, internal capital allocation efficiency	Elimination of conglomerate structures and inefficiencies	International Expansion
Drivers	Changes in technology, economic expansion, introduction of new legislation, lack of antitrust regulation	Increase in antitrust laws, economic recovery after WWI	Increase in antitrust regulation, underdeveloped external capital markets	Favourable economic conditions, relaxation of antitrust regulation, financial innovations	Globalisation, deregulation, privatisation
Performance Effects	Positive	Positive only for target firm	Mixed effects for acquiring firms, positive effects for target firms	Acquiring firm effects dependent on relatedness (more related=more positive), positive effects for target firms	Positive effects only for target firms

*Merger Activity in the US Industry
**Involving US companies

Source: Faulkner et al (2012)

As can be seen in Table 2.1, M&A waves appear to coincide with other periods of intense environmental change. As suggested by the PEST model (political, economic, social and technical), these environmental factors can also have a major impact on the affected businesses (Sudarsanam, 2003). For example, the first and fifth wave occurred during periods of enormous technological development, the first being when mass production and transportation initially came into play and the fifth being the IT revolution (Sudarsanam, 2003). In anticipation of the creation of the EU, a political and economic influence, many firms in the 80s tried to gain a head start by participating in M&A activity, triggering the fourth wave. In addition to this, various changes in regional regulations (e.g. capital gains tax relief) has encouraged or discouraged M&A activity throughout these periods (Sudarsanam, 2003).

Also of relevance, is the seeming explosion of M&As at a time when internationalisation was their primary goal: the number of M&As involving US companies alone increased from 9,617 in the 1980s to 31,152 in the 1990s. In Figure 2.2 we can see that as globalisation became

increasingly relevant in the late 2000s, and throughout the 2010s to this point, that the number of M&As has increased again, and remained high. In 2015 alone, 44,000 transactions with a total value of more than $4.5 trillion took place (Institute for Mergers, Acquisitions and Alliances, 2016).

As more transactions such as these occur on an international and even global scale, national culture differences will continue to be a crucial point of contention that will have to be considered in addition to organisational culture differences. It is also worth considering whether the continual rise of international M&As is a reason why they currently fail so frequently. This will be assessed in the next section as well as in the cases, as we look at reasons for failure and how different types of culture influence this.

Figure 2.2: Number and value of mergers and acquisitions worldwide
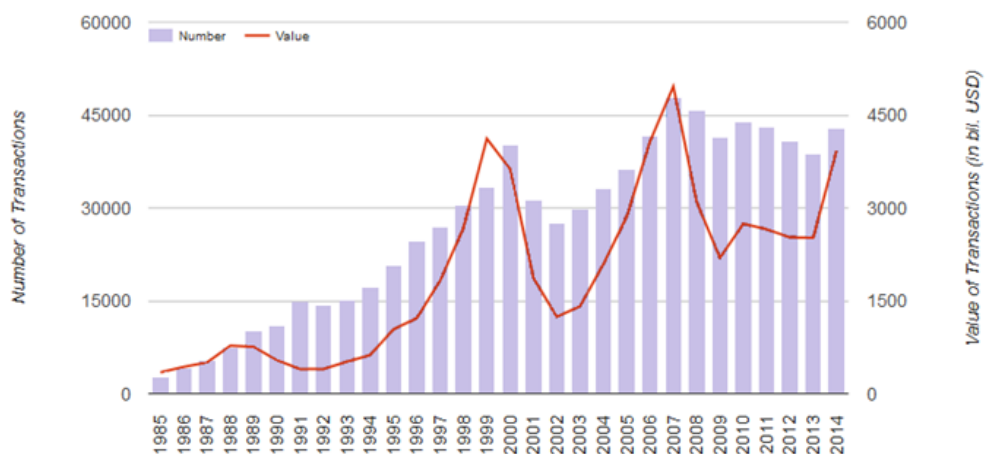
Source: Institute for Mergers, Acquisitions and Alliances (2016)

2.1.4 The M&A process

Mergers and acquisitions are complex in nature, and the same can be said when it comes to the processes and sub-processes of such an operation. However, it is vital to understand what these processes are in order to make the connection between the what, why and the how when it comes to how culture can disrupt them. In essence, the M&A process consists of a number of small events which add up to create the whole (DePamphilis, 2010). These events can also be grouped in accordance with their timing in relation to the deal itself taking place; much of the literature does this based on whether they are pre, during or post-merger/acquisition (Salus, 1989; Appelbaum, Gandell, Shapiro, Belisle & Hoveven, 2000a; Appelbaum et al, 2000b; DePamphilis, 2010). In these 3 stages the key activities are planning, implementation and integration respectively, and are summarised in Figure 2.3:

Figure 2.3: The 3 stages of the M&A process

M&A Phase
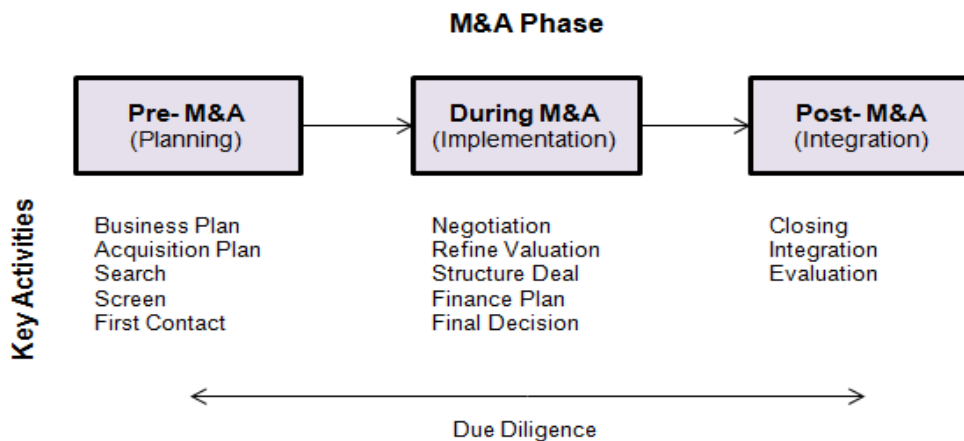
Source: Combination of Appelbaum et al (2000a); DePamphilis (2010)

Pre-merger/planning phase

Planning is key to the success of an M&A and happens in the pre-merger stage. In this stage, several activities take place before even seeking first contact with another firm, such as creating a business plan, developing an acquisition plan as well as searching for and screening potential candidates based on access to resources/know-how or a specific market that one firm doesn't possess (DePamphilis, 2010). It is essentially a stage of in depth research about potential opportunities and following up on the findings. This helps to justify the reasoning behind the M&A, making sure that it is the best course of action. It is important to recognise that not only financial issues should be investigated; firms need to incorporate the assessment of strategic and cultural 'fit' between the two organisations, as well as other 'people' factors (MacDonald et al, 2005). Many managers recognise this fact, however, in reality human resource related planning continues to be among the poorest performing elements of the planning process (Appelbaum et al, 2000a; Hill, 2005).

During merger/implementation phase

The stage is really set for this phase by the actions undertaken in the planning phase; it is the process of making and negotiating the M&A deal between the two companies. This includes refining any valuations, structuring the deal, financial plans are developed and the deal ultimately goes through or disintegrates (DePamphilis 2010). It is vital that a certain level due diligence is paid throughout each stage of an M&A, however this is especially true as the deal is being made and negotiated. By due diligence we mean that the other firm is thoroughly investigated to get an accurate picture of their financial and strategic position, which is typically done by a team of consultants, accountants and lawyers (Kusstatscher & Cooper, 2005).

During this process, it is important that expectations are made clear and an understanding of the attributes of the two firms is reached (MacDonald, Coulthard & De Lange, 2005). Furthermore, it not only helps in ensuring the accuracy of the planning done, but also in reducing managerial ego (MacDonald et al, 2005) and preventing any members of management becoming cynical or resisting the change taking place as this will stifle future progress (Appelbaum et al, 2000a).

Post-merger/integration phase

After the merger or acquisition takes place comes the phase where many firms stumble; the integration phase, in which most of the value creation from the M&A takes place (Angwin & Meadows, 2015). A plan for how this would occur should have been drawn up before this phase begins, and normally focuses on how IT systems, marketing, production and other departments will be unified. It is crucial that culture and how the employees feel is also taken into account at this stage, otherwise the firm may end up with a lack of participation in the integration process (Weber, 1996). People crave to feel like they matter, be identified with the new firm and to be treated with respect (Lake, 1997) and if this is not the case, they may feel 'wrung out', or pessimistic about the firm and their future within it (Marks & Mirvis, 1992) which in turn affects the team's ability to work together.

The eventual evaluation of the merger or acquisition also needs to take place (DePamphilis 2010) and compared to the original goals of the M&A - if it falls short an investigation should be conducted.

2.2 The Merger and Acquisition Failure Phenomenon

Engaging in a merger or acquisition is without a doubt one of the most crucial strategic decisions a firm can make, due to the scale of the operation and the large sum of money or valuable assets exchanging hands. Furthermore, it remains a popular decision for firms, as can be seen in Figure 2.1, and one which is done for a variety of reasons.

Success however is in no means guaranteed. In fact, when the results of completed M&As are analysed in more detail, the success rates tell a much bleaker story. The majority of M&As are considered to be a failure for both or at least for one of the firms (Bertrand & Betschinger, 2012; Canina, 2009; King et al., 2004), with figures ranging between 50% and 80% (Bruner, 2004; Schoenberg, 2006; Cameron and Green, 2009) being found throughout current literature on the topic. Some research indicates that this is true regardless of the way the success or failure is measured, whether it be stock price, revenues, earnings, return on equity or even

dissolvement (Adolph et al, 2001). However, other research argues that this is not always the case (Brouthers, 2000; DePamphilis, 2010) and that it depends on the definition of failure used; for example, liquidation or sale of the business occurs much less often than say, not meeting financial expectations. According to DePamphilis (2010), what failure is considered to be must be defined before an investigation of what caused it can be conducted. For this thesis, which focuses on the way culture influences M&A failures, the definition will remain broad; the term 'failure' will refer to the failure to realise the expectations of the two firms or to the dissolution of the M&A, whether than means re-separation of the two firms or one of the firms being sold.

Given this high rate of failures in M&As, it is key that the source of these failures is investigated, in order for businesses to be able to take them into account when planning the process beforehand. M&As that are not appropriately planned more often than not result in financial or social costs that not only harm the firm but those indirectly affected in society who end up picking up the tab (Chase, Burns & Claypool, 1997). Thus, it is imperative that managers have all the information possible when completing this process in order to avoid failure.

Due to the many dimensions involved in the M&A process, the reasons leading to their failure has been investigated through many lenses, such as social, political, geographical and financial perspectives (Finkelstein, Sydney, Cooper & Cary, 2013).
One topic that continues to resurface in studies regarding this topic is the role culture plays in these failures (Cartwright and Cooper, 1993; Weber & Camerer, 2003; Appelbaum, Roberts & Shapiro, 2013). Culture is often an afterthought when it comes to M&As, especially when considered alongside other more conspicuous factors such as financial, technological or market share advantages (Appelbaum & Gandell, 2003).

Despite the fact that many firms realise that cultural integration of some degree is necessary for success, it is not always given the warranted attention, nor are these intentions always translated into action. To put this into context, for an employee in one of the firms, a merger or acquisition can require more social adjustment than other big life events, such as buying a house or the death of a friend (Cartwright and Cooper, 1993). It seems illogical then in comparison, that up to 58% of firms having no plan for approaching cultural integration (Bouwman, 2013). Now culture will be discussed in more detail to get a better understanding of what firms are up against.

2.3 The Culture Concept

As Marks and Mirvis (2010) put it, '*Culture is a lot like breathing: you don't think about breathing, you just do it.*' It is pervasive, and affects our behaviour in ways we do not even realise, such as the way we process information and react to it. Using the metaphor of an onion, Hofstede (1991) distinguishes between the implicit (values) and explicit (practices) layers of culture. It is only by peeling back these layers and investigating all the way to the core that we can truly have a deeper understanding of what culture is. However, there are also further distinctions that can be made about culture before this peeling process occurs, namely which level of culture we are trying to investigate.

Hofstede (1991) categorised six levels of culture; a national level, a regional/ethic level, a gender level, a generation level, a social class level and an organisational level, all of which have varying levels of influence on the individual depending on the situation. Due to the fact that this thesis focuses on cultural conflict within the sphere of a merger or acquisition, it will focus on the most relevant levels of culture; national and organisational, and seek to determine what role they play, what influence they have and whether they are the most prevalent cause of merger and acquisition failures.

A natural place to begin is by honing in on both organisational and national culture individually. By defining them and investigating their models more deeply, it will help in understanding how they are connected to other key elements within a firm. In the case analysis stage, this will assist in diagnosing how and why conflict develops, how it manifested itself and whether this can ultimately be avoided through managerial changes. Furthermore, by investigating national and organisational culture separately, it will allow the true dimension of the cultural problem to be identified during the case study analysis.

2.4 National Culture

In our continually globalising world, political, legal and economic barriers are diminishing, and the old fashioned belief that one size fits all when it comes to doing business has been replaced with a recognition that national culture creates barriers almost as literal as country borders. Despite this, national culture remains largely intangible - an abstract concept to firms looking to either serve foreign markets or work with foreign firms. Although most attempts to measure national culture do not come without their criticisms, the most important point is to acknowledge and to understand that managerial practices must be adapted based on the country in which they are being implemented (Newman & Nollen, 1996).

2.4.1 A definition of national culture

National culture is embedded deeply within our everyday lives. It can be found in all human interactions and organisations, whether we realise it or not, and is impervious to change (Newman & Nollen, 1996). Hofstede (1991) defined national culture as the values, beliefs and assumptions learned in from adolescence that distinguish one group of people from another; a sort of mental programming of the members of the nation. This notion is reinforced by Erez & Drori (2009), who emphasize that culture is a social phenomenon that focuses on collective rather than individual features.

Similarly to organisational culture, the emphasis of national culture among many researchers lies on the shared beliefs, values and assumptions held by a group of people. In fact, the culture of a nation is reflected in its organisations and their procedures (Erez & Drori, 2009) and Hofstede (1991) categorised it accordingly; that organisational culture is directly linked to national and therefore can be viewed as a subculture of it. However, Gibson (2009) makes an important distinction that not all beliefs or assumptions held by individuals can be associated with an individual's national culture; he argues it is key to focus on only those which influence the survival of the group and the social interaction with them.

Although the homogeneity of nations is becoming diluted through globalisation and immigration, they do still tend to be characterised by similar ethnic, linguistic and religious characteristics. These factors, although not inherently ingrained in our belief system, do affect how we perceive, behave and interact with each other's. Language for example; '*carries with it patterns of seeing, knowing, talking, and acting…patterns that mark the easier trails for thought and perception and action*' (Agar, 1994). It is therefore important not to underestimate these observable elements, especially when it comes to a business context.

2.4.2 A model of national culture

The most widely used model of cultural difference is that of Geert Hofstede (1984, 1991, 2010), which is based on the assumption that different country cultures can be classified based how much they display particular values and behaviours. Hofstede found that these value and behaviour characteristics could be statistically categorised into groups, or 'dimensions' as they are called. Countries are then given a rating based on how much they display these dimensions, which in turn allows the cross country comparison of culture differences. The model initially had 4 dimensions which were observed among participants, later revised to 5,

and then 6. A table of these values per country will be included as an appendix. The dimensions are as follows:

1.   Power Distance

Power distance is related to the inequality among members of a society. It is the expectation and acceptance, from both followers and leaders that power is distributed unequally members (Hofstede, 2011). While, Hofstede recognises that there is always some degree of inequality among societies, this dimension refers those which are *more* unequal. A low power distance is characterised by a society striving for equality and power distribution, while a high power distance society need no justification for the opposite (Hofstede, 2010).

2.   Collectivism vs. Individualism

This dimension refers to the extent to which people within society are integrated into groups and to what extent group interests take precedence (Hofstede, 2011). Essentially, it is to what extent they think in 'we' or 'I'. In an individualistic society, people are more focused on only themselves or their close family, while in a more collectivist society people are integrated into extended family groups where loyalty and protecting each other are paramount.

3.   Masculinity vs. Femininity

This dimension refers to how values are distributed between the two genders in a society. A masculine society is one in which achievement, assertiveness and material things are highly valued, while in a more feminine society, cooperation, quality of life and being caring are prioritised. Another key finding was that women's values differed less based on this dimension than men's values (Hofstede, 2011), meaning there is a much bigger difference between two men in societies on either side of this scale than two women.

4.   Uncertainty Avoidance

Uncertainty Avoidance expresses society's tolerance for uncertainty and ambiguity and its impact on rule making (Nardon & Steers, 2009). An example of this is being in an unstructured or unknown situation where the future is not certain. Societies that exhibit a high uncertainty avoidance rating tend to have strict laws and codes of belief as well as a disapproval of irregular behaviour, while societies with low uncertainty avoidance tend to be more relaxed (Hofstede, 2011).

5.   Long vs. Short-term Orientation

This dimension was first included in Hofstede's 1991 revision of his original culture index and further analysed in 2001, and refers to the outlook of society members on work, life and

relationships (Nardon & Steers, 2009). Societies with a short term orientation emphasize traditions, fulfilling social obligations and stability, while one with a long term orientation place more importance on hard work and thrift and relationships tend to be ordered by status (Hofstede, 2011). It is similar to the organisational culture dimensions of normative (short-term) and pragmatic (long-term) which will also be discussed.

6.   Indulgence vs. Restraint

The last dimension was first proposed by Minkov (2007) and then added to Hofstede's 2010 revision. It refers to the freedom of a society to do what makes them happy. An indulgent society refers to one that emphasises enjoying life, having fun, and a relatively free approach to what you can do with your life. On the other hand, a society that values restraint tends to have strict social norms which regulate how people behave and enjoy themselves.

This model is definitely not without its past criticisms, however due to its several revisions it now resembles other more recent, comprehensive models (Trompenaars & Hampden-turner, 1998; House et al, 2004). Nardon & Steers (2009) conducted a comprehensive analysis on the convergence and divergence of 5 well known models of culture including the 3 mentioned as well as that of Hall (1990) and Schwartz (1992). They found that there were 5 key themes throughout the models; distribution of power and authority, emphasis on groups or individuals, relationship with environment, use of time and personal and social control - as can be seen in the flowchart in Appendix A. The Hofstede dimensions cover each of these themes and provide the further benefit that numbers that each dimension comes with a numerical scale, meaning countries can be roughly compared to each other, which several of the other models do not have. For this reason, it will be the primary model used conceptually in this thesis in regards to national culture, however, as with the organisational culture models, it should not be treated as a predictive model.

2.5 Organisational Culture

Just as there are many layers to culture, so are there to organisational culture. It is complex in nature with many levels and interpretations, meaning definitions throughout the literature are varied - below are several examples:

'It represents the form by which organizational members define themselves...in relation to their external environment, and how they understand themselves to be different from competitors.' (Alvesson & Empson, 2008:1)

'The basic tacit assumptions about how the world is and ought to be that a group of people share and that determines their perceptions, thoughts, feelings and their overt behaviour.' (Schein, 1996)

'It is the way in which members of an organisation relate to each other, their work and the outside world in comparison to other organisations.' (Hofstede, n.d.)

The given definitions imply that the scope of organisational culture is rather broad; they vary from being focused on identification, ideological values or how employees relate to each other and outsiders. The implicitness of organisational culture only adds to this differentiation in its definitions, as it refers to aspects of the firm that are accepted, however often taken for granted or not directly acknowledged, such as expectations, assumptions and behaviours. It is therefore important to take a look at it step by step, rather than as a whole concept, in order to identify which building blocks together create the culture of an organisation.

2.5.1 A definition of organisational culture

According to Cartwright and Cooper (1993), organisational culture is the '*social glue*' that connects all the components of a firm, for example the marketing, R&D and HR departments, and each element of the culture that will be discussed plays a role in the binding process. In addition to this, it helps to determine 'how' things are done through an individual manner of working that reflects behavioural norms and shared values.

A shared sense of organisational identity is a concept which is embedded in the organisational culture literature. It not only refers to how the members (employees) understand the organisation, but how they make sense of who they are and what they do within it (Wan, Chen & Yiu, 2015). In keeping with this, Alvesson and Empson (2008) argue that it determines how members view themselves as a social group, particularly in relation to how they differ from competitors. It is this sense of something '*larger than the self*' (Smircich, 1983:346) that facilitates a shared sense of belonging, commitment and common beliefs, as is depicted in organisational culture. If we take Tesla motors as a hypothetical example of this, members of the firm may identify themselves as pioneers of the electric car industry, innovating in order to clean up the industry for a better future.

Another essential element (or 'building block') of organisational culture is a set of shared values or beliefs among members which are typically subconscious or taken for granted (Cartwright and Cooper, 1993). These values typically develop through joint experience (Weber &

Camerer, 2003) as well as through learning as beliefs and rituals are taught to newer members of the organisation over time. This value set penetrates every level of the organisation, from managers to administrative workers, as it passed down and taught to newer members (O'Dell & Grayson, 1998). This set of values determines the patterns of behaviours and norms of what is expected within the firm. Furthermore, it serves an extra purpose within the organisation by increasing cohesion and the ease of communication between colleagues.

Patterns of behaviours and norms are another key component of organisational culture recognised in the literature, an example of which could be persistence in solving a problem, or the level of formality at which colleagues interact (Meglino, Ravlin & Adkins, 1989). They represent the shared beliefs, behaviours and organisational practices that a group has in common and are more heavily influenced by management than some other cultural factors such as values (Delobbe, Haccoun & Vandenberge, 2002). This is due to the fact they are more readily adoptable, in comparison to internal values which take time and experience to develop. Hofstede et al (1990) suggested that it is in fact these practices (i.e. behaviours) that are the primary manifestation of corporate culture, while values are influenced more heavily by national culture - this may explain why such significant differences in culture can still exist between two organisations that share the same national culture.

Many definitions of organisational culture stop here, having identified values and behavioural patterns as key elements of culture. However, Schein (1984) advocates delving deeper into the unconscious side of organisations and their members. According to him, this unearths a set of basic assumptions, which are taken for granted characteristics that evolve from shared values and the environment in order to cope with both internal and external problems. It is these assumptions that further guide and shape the behaviour of organisational members, and that are passed down to newer members as the correct way to perceive, think and feel in each situation.

2.5.2 A model of organisational culture

Schein (1984) provides one of the more dominant models of organisational culture, which is also one of the more comprehensive. It divides culture among three different levels; the visible artifacts of an organisation, the espoused values of its members and the deeper assumptions which guide them. Looking at these levels separately allows a clearer overview of how they interact.

Figure 2.4: The levels of culture and their interaction

Basic underlying assumptions	Espoused values	Artifacts	
Organisational culture	**Strategy**	**Structure**	**Operations**
Unconscious assumptions about who we are and what we expect	More visible values that govern behaviour. Includes strategies, goals, philosophies	Visible but not often deciferable, includes rituals, symbols, stories, overt behaviours and visible structures	

Sources: Schein (1984); Dauber, Fink & Yolles (2012)

1. Visible Artifacts

Sometimes also known as organisational attributes, they include visible and audible behaviour patterns, for example its rituals, symbols and stories, as well as the architecture, technology and the constructed environment of the firm. According to Schein (1984), the data about this level are often easy to obtain, however understanding them is a different matter. Overt behaviours and organisational characteristics cannot be used alone when trying to decipher culture, because situational contingencies often result in their misinterpretation (Schein, 1996). That is why it is important to dig deeper, beyond the *what*, to discover the *why* that lies within the values and assumptions of the organisation and its members.

2. Espoused Values

The second level of the model, espoused values is the set of idealistic values that supposedly govern the behaviour of the firm and the people within it. This level also contains the strategies, goals and philosophies of the organisation. The name espoused values refers to the fact that they are often sourced from employees, whose opinions are subjective and often idealistic. This leads to the true values sometimes being hidden.

3. Basic Assumptions

The third level of Schein's model is basic/underlying assumptions, which although unconscious, truly influence how group members think, feel and act. Schein (1984:4) uses the example that '*schools should educate*' us an underlying assumption, because it's implied and taken for granted, you don't need to think about it. It is also important to note that if values are ingrained enough and the behaviours repeated enough, then they can also become underlying assumptions. The importance of these assumptions in Schein's model is summarised in the following definition he gives of culture; '*Organisational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have 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, 1984:3) It is these assumptions that are most likely to be the major causes for cultural clashes within M&As, since they are both difficult to predict and adapt to.

It is important not to underestimate the complexity of this model, and to look not only at the levels but at the processes occurring between them. According to Hatch (1993) organisational members realise, interpret and manifest information from all three of these levels and symbolisation also comes into play as an extra level. It is by looking at all of these levels and interactions that we gain a deeper understanding of how it affects perceptions and behaviour within a given firm (Schein, 1996).

2.5.3 Types of organisational culture

Before going into detail about types of organisational culture, it is important to note that the categories discussed below should not be taken too literally in terms of having a cause-effect relationship with organisational outcomes. Meaning, in relation to this thesis topic that even if two firms are thought of as having different organisational culture types, it does not necessarily mean that these classifications are the reason as to why there is or was conflict. What these typologies do is enable a deeper understanding of how cultures differ between organisations and in which ways these cultures may be orientated.

The most comprehensive typology that is that of Hofstede, Neuijen, Ohayv & Sanders (1990) which divides organisational types into 6 different possible dimensions, as shown in Table 2.2:

Table 2.2: Hofstede et al's (1990) Dimensions of Organisational Culture

Culture Dimension	Main Characteristics		
Process (means) oriented vs. Results (goals) oriented	Focus on how work is carried out Characterised by avoiding risks and minimal effort	vs.	Focus on achieving specific internally set goals, done even when faced with substantial risk
Employee oriented vs. Job oriented	Emphasises the welfare of employees and takes into account their well-being, happiness etc.	vs.	Focus on high job performance, even at the expense of employees
Parochial (local) vs. Professional	Employees identify with their colleagues There is a low level of social diversity Internally focussed, pressure to conform	vs.	Identity is determined by job & its contents Social norms the reverse of local
Open System vs Closed System	Open to both insiders and outsiders Leaders tend to be more approachable	vs.	More exclusive and closed to outsiders New members may have to prove their worth
Loose Control (easygoing) vs. Tight Control (strict)	Loose internal structure, informal Lack of predictability Typically higher levels of innovation	vs.	Focus on planning, efficiency and productivity
Normative (Internally driven) vs. Pragmatic (Externally driven)	Focus on business ethics and honesty Employees know what is best for the client	vs.	Focus on meeting the customer's requirements Results/customer satisfaction most important

Source: Hofstede, Neuijen, Ohayv & Sanders (1990)

It is first important to note that there is not a particular type of organisational culture which is the 'best', however certain characteristics do have an influence on the experience of the employees, for example the opportunity for employee participation and had a direct impact on job commitment and satisfaction (Cartwright and Cooper, 1993). Hofstede et al's (1990) model is one of the more comprehensive, which is why it has been included in such detail in Table 2.2.

As there are so many models based only on the governing values of a firm, rather than just choosing one, they were compared and the converging points from them were derived as can be seen in the flowchart in Appendix B. Hofstede et al (1990) as well as Cameron and Quinn (2011), Harrison (1972) and Schneider (1999) all had a variation of the converged characteristics 'loose vs. tight control', 'process vs. results oriented', 'role rigidity vs. flexibility' and 'teamwork vs. task focus'. As can be seen in Appendix B, Hofstede's model covers the four converging bases that the majority of the other models agree upon (Cameron and Quinn 2011; Harrison, 1972; Schneider 1999), while also adding two additional dimensions; 'open' vs. 'closed' and 'normative' vs. 'pragmatic'.

Appendix B attempts to demonstrate the link between Schein's (1984, 1996) model of culture, as mentioned in section 3.5.2, and the typologies provided by research up to this point. Although these organisational culture types are not entirely predictive, they do give us a conceptual insight into how cultures can differ between organisations and how they could be a factor in causing conflicts within a merger/acquisition setting. Furthermore, they provide insights when it comes to organisational compatibility (Cartwright and Cooper, 1993; Gundry and Rousseau, 1994), such as being able to estimate the outcome of a 'marriage' between two organisations of differing cultures.

2.6 Cultural Leadership

As discussed above, culture infiltrates virtually every level of human thought and behaviour, and as this also applies at a managerial or executive level the notion of leadership is no different. By definition, leadership is the process influencing a person or group towards accomplishing a certain goal or result and these processes can also be influenced by culture, whether it be societal or organisational (Aktas, Gelfand & Hanges, 2015). It not only influences how leaders and followers perceive and treat each other, but also which type of leadership style is preferred and most effective. Just one example of this is the fact that 'tight' cultures (see Table 2.2) are more likely to prefer an autonomous leadership style (see Table 2.3), while 'loose' cultures prefer a charismatic leadership style (Aktas et al, 2015).

As part of Project Globe, a large scale cultural investigation for the benefit of future leaders, many important insights were gained, particularly in the realm of cultural and cross-cultural leadership. The findings not only reinforced implicit leadership theory (ILT), but furthered it to create dimensions based upon culture (culturally endorsed ILT, or CLT). Implicit leadership theory is the assumption that individuals hold their own set of beliefs about what attributes, characteristics or behaviours equate to good or bad leadership. Culturally endorsed implicit leadership theory goes one step further by suggesting that beliefs about what makes a good or bad leader are shared among individuals with a similar cultural background (Javidan, Dorfman, Sally de Luque & House, 2006). They created leadership dimensions, as seen in Table 2.3, which were then used to test whether certain culture 'clusters' (groupings of similar countries, e.g. Scandinavian countries) have similar leadership preferences:

Table 2.3: GLOBE identified CLT dimensions and their characteristics

Leadership Dimension	Main Characteristics
Charismatic/Value Based	The ability to inspire, motivate Expects high performance outcomes from others Contributes to outstanding leadership Highest in Anglo cluster, lowest in Middle East
Team-Oriented	Emphasises team building and a common goal Contributes to outstanding leadership Highest in Latin American cluster, lowest in Middle East
Participative	The degree to which managers involve others in making and implementing decisions Contributes to outstanding leadership in most cases, but not all Highest in Germanic cluster, lowest in Middle East
Humane-Oriented	Reflects supportive, considerate leadership Characterised by compassion and generosity Neutral to contributing moderately to outstanding leadership Highest score in South Asian cluster, lowest in Nordic Europe
Autonomous	Independent and individualistic leadership Can either impede or slightly facilitate outstanding leadership Highest score in Eastern Europe cluster, lowest in Latin America
Self-Protective	Ensuring the safety and security of the individual Tends to be self-centered and face-saving Impedes outstanding leadership Highest score in South Asian cluster, lowest in Nordic Europe

Source: Javidan et al (2006)

The issue for management in this is whether the attributes that made them a successful leader translate well when another culture comes into play. During this investigation, Javidan et al (2006) found that country clusters do have preferential criteria for when it comes to assessing their leaders, which are shown in Table 2.4:

Table 2.4: GLOBE Cultural Views of Leadership Effectiveness

Universal Facilitators of Leadership Effectiveness	Universal Impediments to Leadership Effectiveness	Culturally Contingent Endorsement of Leader Attributes
Being trustworthy, just and honest (integrity)	Being a loner and asocial (self-protective)	Being individualistic (autonomous)
Having foresight and planning ahead (charismatic/visionary)	Being non-cooperative and irritable (malevolent)	Being status conscious
Being positive, dynamic, motivating (charismatic/inspirational)	Being dictatorial (autocratic)	Being a risk taker (charismatic/self-sacrificial)
Being communicative, informed, a coordinator and team integrator (team builder)		

Source: Javidan et al (2006)

Culturally contingent attributes are those which vary in success based on the culture of the country or organisation. For example, being individualistic may not be a successful leadership

style in Latin America, where team oriented leadership is highly valued. The same can be said for specific organisations. The key point to take away from the GLOBE study is that it cannot be assumed that just because a management style is successful within one culture setting, be it national or organisational, does not mean that it will be successful in a different one (Brodbeck et al, 2000). It is therefore important that leadership styles are adjusted based on the preferences of the cultural you are moving into. This is particularly relevant to this thesis topic, as mergers and acquisitions by definition cross at least organisational culture boundaries, if not national as well. Failure of leadership to adapt to different cultures may be an element in why some of these M&A cases fail.

2.7 Cultural Conflict

As mentioned throughout the previous sections, the primary catalysts for driving M&A deals are strategic, legal or economic; however cultural issues play an important role in determining a deal's ultimate success - it can literally make or break the entire process (Appelbaum et al, 2013). If culture differences are dealt with inadequately, it can commonly lead to disagreements and even full blown cultural conflict. Defined by Turner (2005:87) as, '*differences in cultural values and beliefs that place people at odds with one another*', the initial feelings of discomfort or even hostility between employees and particularly management (Rottig, 2007) are referred to by Buono, Bowditch & Lewis (1985) as a type of 'culture shock'. Devine (1999) identified several key behaviours and the thought process associated with such cultural conflict:

Table 2.5: Signs of a culture clash

Action	Symptoms		
Stereotyping	we, us	vs.	they, them
Glorifying past	old practices	vs.	new practices
Comparison	superior, stronger	vs.	inferior, weaker
Information sharing	cooperation	vs.	coalition

Source: Devine (1999)

These 'symptoms' of cultural conflict include the tendency to think in terms of 'us and them', to glorify the past (i.e. the time before the merger or acquisition), to view those from their own firm to be superior and to lack the willingness to share information or to accept the work of the other firm (Devine, 1999; sourced in Cameron and Green, 2003). This is reinforced by Weber & Schweiger (1992), who after reviewing the post-merger integration process found that cultural conflict between top management is characterised not only by stress, distrust and the annoyance of being forced to work together, but also by negative attitudes towards the other

firm's team and a negative attitude to cooperating with the other firms management. This ultimately leads the managerial staff to feel less committed to making the integration process work and their willingness to cooperate with the other firm is reduced (Weber & Schweiger, 1992).

This is not only a problem in the very initial stages of an M&A, but in the months and years following - it can take up to 7 years for employees to feel comfortable in their new working environment (Weber & Schweiger, 1992). Furthermore, firms with a strong organisational culture experience an increased cohesiveness among employees (Sorensen, 2002), but this can also have a contradictory effect when it comes to open innovation, co-creation or the sharing of information within the M&A process when the culture differences have not been dealt with properly (Weber & Camerer, 2003).

Olie (1994) describes a possible scenario between such firms, where mergers resemble more of a 'confederation' of two companies, that are linked for all intents and purposes but have failed to shape any common identity, which inevitably led to a failure to achieve pre-acquisition objectives in those firms. In general, the organisational culture difference between the two firms during an M&A often leads to reduced performance, less wealth created for shareholders (Datta & Puia, 1995) and as a result, a failure to meet the initial M&A goals. Devine (1999) suggests that this lost performance can be as high as 25-30% and is the largest contributing factor to many M&A failures.

2.7.1 National vs. organisational culture conflict

An aim of this thesis is to investigate not only the different effects of the two cultural categories on M&As, but also the interaction between the two and what firms can do to recognise and neutralise any cultural conflict. Therefore, it is important to theorise the potential outcomes given any of the four situations shown in Table 2.6.

Table 2.6: Corporate and National culture clashes in M&As

		Domestic M&A	Cross-border M&A
Corporate culture differences	High	corporate clash	dual clash
	Low	cultural similarity	national clash

Increasing cultural clash

Source: Larsson & Risberg (1998)

Table 6 shows Larsson and Risberg's (1998) theory of different cultural interactions given either a domestic or cross-border M&A. They found that awareness was the game changer when it came to preventing cultural conflict, or 'clashes' as they refer to it. Perhaps counter intuitively, national culture differences were found to not necessarily affect cross-border M&As negatively. This is due to the fact that the firms were very aware that there would likely be cultural differences and planned and reacted accordingly. Organisational culture differences on the other hand, tended either not to be recognised, or underestimated, meaning a higher likelihood for cultural conflict in both domestic and cross-border M&As.

However, the answer is not as simple as it seems - these findings do not go undisputed. While the negative effects of high organisational culture differences in domestic M&As are unequivocally negative (Bouwman, 2013; Cartwright and Cooper, 1993; Weber & Camerer, 2003; Appelbaum, Roberts & Shapiro, 2013), results relating to national culture and organisational culture in relation to cross-border M&As are more contradictory. Certain research points to a positive relationship between national culture differences and M&A success and performance (Larsson & Lubatkin, 2001; Larsson & Risberg, 1998 and Morosini, Shane & Singh, 1998), while other findings indicate the opposite (Lee, Kim & Park, 2015; Olie, 1990; Weber, Shenkar and Raveh, 1996).

The culture-conflict-performance issue is more complex and subtle than many assume, and any shifts in situation can seemingly have a large impact on the resulting M&A performance. This raises the question of whether adequate cultural management is the key to success in reality, rather than trying to minimise cultural differences. We will explore this in the following sections.

2.7.2 Integration disruption

According to Weber (1996), the key disruption to an M&A from cultural conflict happens in the integration (post-merger) phase as the firm's truly coalesce and the management teams begin to work together. If this process is disrupted or does not go to plan, the results can be detrimental - particularly from a cultural standpoint. In their 2011 survey of firms that have been or are involved in M&A activity, Aon Hewitt identified a number of these consequences associated with unsuccessful cultural integration, according to the firms themselves. The results can be seen in Figure 2.5, which make it clear the extra costs to integration added by human resource difficulties. This undermines the ability of the firm to achieve desired synergy

levels (Weber, 1996) which of course also plays a role in what is considered to be a failure of an M&A.

Figure 2.5: Consequences of unsuccessful culture integration (% of respondents)
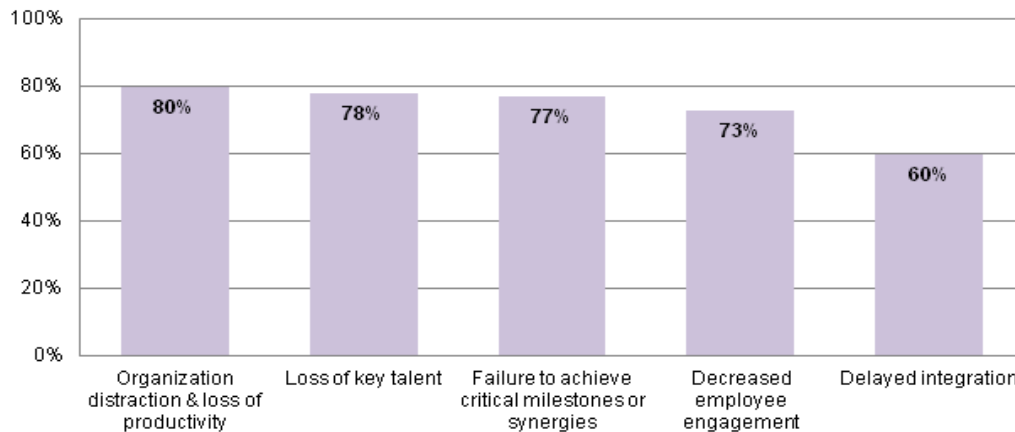
Source: Aon Hewitt (2011)

The problem lies in that the cultural integration process, despite being highly important, is largely intangible, making analysis difficult (Appelbaum et al, 2013). For example, Birkinshaw, Bresman & Hakanson (2000) found that cultural, or 'human' integration as they put it, primarily involves developing acceptance of the M&A and fostering cooperation between employees. But what processes facilitate or hinder acceptance or cooperation? A number of potential ways in which cultural conflict can be antagonised have been recognised, which in turn are detrimental to this integration process.

2.7.3 Sources of cultural conflict

It is not enough simply to recognise that culture has a negative effect on M&A performance, or that it influences failure rates, a deeper understanding of how this happens is needed. For this, investigating the root sources of cultural conflict is necessary and will be done in this section. A summary of findings can be seen in Figure 2.6.

Underestimation by management
Cultural differences have already been discussed at length in this theoretical framework, however it is important to note that a key cause for the manifestation of cultural conflict is the *underestimation* by management of how important, severe and deep rooted cultural differences can be (Weber & Camerer, 2003) Despite its demonstrated effect on individual firm performance, corporate culture is often an afterthought, especially when considered alongside

the other factors mentioned above. Even though many firms realise that cultural integration is vital to success, and express this when questioned, it is not always given the warranted attention, with anywhere from 58% to 70% of firms having little or no plan for approaching cultural integration (Bouwman, 2013; Hill, 2005). Another issue may also be that the importance of culture is simply being underestimated, particularly the importance of the culture to those holding the beliefs or values (Schneider & Barsoux, 2003), i.e. what some may hold sacred, others find meaningless. Again, this is due to putting too much focus on tangible aspects of the M&A deal and not enough on human elements (Weber & Camerer, 2003).

Communication issues

Issues with communication can also be a source of conflict, especially when it comes to a transformational process as dramatic as a merger or acquisition (TingToomey & Oetzel, 2001). This is true throughout each stage of the process, not just the integration stage (Davenport & Barrow, 2009). For example, it is important that issues such as the reason for the M&A and its goals are properly communicated from the beginning, while later in the merger, communicating strategies and building trust are key (Cartwright & Cooper, 1992; Davenport & Barrow, 2009). Stahl & Sitkin (2010) suggest that in order to build enough trust, the *quality* of the communication between the two firms is one of the most significant factors, while Cartwright and Cooper (1992) emphasize clarity and consistency. It is particularly important that information coming from the leadership is clear and matches their actions, otherwise misunderstanding may lead to conflict (Davenport & Barrow, 2009). In essence, communication channels need to be open both ways, and management of the two firms should ensure the message they are sending is clear and suits the cultural differences between the two firms, so that employees of all levels understand it.

Imbalance in power

Another way in which conflict can arise is through an imbalance in power, or the way power is distributed among the two firms (TingToomey & Oetzel, 2001). For example, if the acquiring firm entirely removes the autonomy from the acquired management team (Weber, 1996); meaning that the acquiring firms managerial team intervene or take control of the decision making process, whether by setting certain standards and expectations, or implementing regulations which the acquired team need to follow. Weber, Shenkar & Raveh (1996) theorise that this process forces the two teams to work unwillingly closely together without addressing the original cultural differences first (or at all). Cultural differences then become increasingly self-evident, which in turn causes friction and the negative feelings of stress and anger discussed in section 2.7, resulting in reduced effectiveness of the integration process. Other research has shown that it may not be so simple; different levels or characteristics of culture

may require a different approach to integration (Weber, Tarba & Reichel, 2011). During their consolidation of research regarding integration, Weber et al (2011) found that with a lesser degree of autonomy removal (i.e. not completely), integration attempts could indeed be successful and even helpful depending on the cultural characteristics of the firm. One example of this is in cultures with a greater acceptance of power distance (Lubatkin, Calori, Very & Veiga, 1998).

Lack of identification with the new firm

Each firm has its own unique organisational identity, which is at least in part fostered by their organisational culture (Cartwright & Cooper, 1995). However, in the case of a merger, two identities become one, and in that of an acquisition, the acquired firm may lose their sense of identity as it is absorbed by the acquiring firm. This lack of ability to identify with the other firm can disorientate employees and is another reason as to why conflicts may arise (Kroon, Noorderhaven & Leufkens, 2009). The identity of a firm is directly related to the behavioural intentions of those within it, this is also valid in a post- M&A situation (Kroon et al, 2009), meaning that a lack of identification also poses a potential threat to successful cultural integration. This is reinforced by the fact that a lack of identification with the post- M&A firm is related to a lower willingness to cooperate (Cartwright and Cooper, 1995), exert considerable effort on behalf of the firm and a lower desire to remain a member (Weber, 1996). Although organisational identity has its roots intertwined with culture, it is important to recognise that identity relates not only to *how* we do things but our perception of *who* we are as well. Therefore, the correct balance between assimilation into the new firm and conservation of the old identity needs to be found (TingToomey & Oetzel, 2001).

Not invented here

As mentioned in section 2.7, cultural conflict is not just an issue during the initial integration stage, but one the rears its head throughout the lifespan of the merger or acquisition. A cause of this is the biased perception that knowledge from within the firm is superior, making it less likely for the firm to accept external knowledge regardless of whether - this is also known as 'not invented here' (NIH) syndrome (Arau, Burcharth & Fosfuri, 2014). This issue is exacerbated by the fact that people, by nature, are resistant to cultural change, often limiting the success of any attempts to remedy this over time (Stahl & Voigt, 2008). Having to jump through excessive hoops, such as unnecessary bureaucracy, in order to get things done slows down or even kills off innovation completely as people are forced to water down or abandon their ideas (Webb, 2011). The whole 'not invented here' issue is in large part due to ego taking precedence over getting the job done on behalf of the organisation (Webb, 2011). As we

discussed in Table 2.5, this is a typical symptom of a culture clash, and in this respect is also a cause.

Figure 2.6: A summary of sources of cultural conflict

2.7.4 Is there a key to success?

Judging by the past several sections, it may seem like a firm has a mountain to climb in overcoming cultural differences, conflict, and all the sources and problems that come along with them. While this is true, virtually any mountain can and will be conquered with the right amount of preparation, attitude and equipment. However, despite the topic of cultural conflict being well-discussed in literature, there remain few *specific* recommendations on how to tackle it and whether these techniques actually work. In this section, some of the recommendations put forward will be discussed and can then be compared to what happens during the real-life case analysis for comparison in the discussion section.

Kansala and Chandani (2014) provide one of the few sets of recommendations for how best to handle change management during a merger or acquisition, not all, but some of which directly relates to cultural issues in the organisation.

Integration plan
Executives should plan the integration process early on and communicate this to employees as early as possible during the process, placing emphasis on the benefits of the M&A. This will minimise any misinformation and stop the spread of gossip.

Clear vision

A mutual vision of the end result should be created by the two firms, including goals, values, policies etc. Once this vision has been established, it too should be made clear to the employees.

Understanding cultural differences

Of particular relevance to this topic are their recommendations for tackling cultural differences. These are that the management of the organisations spend time with their employees, identify cultural differences, find out what annoys them and what excites them and use their findings to create a cultural plan.

Employee involvement

When employees from both firms are involved in the process it opens up knowledge sharing processes so that each firm gets a better understanding of the operations and processes of the other. Furthermore, it helps to build trust between the two sides.

Customer focus

Existing customers should be kept informed of what is going on within the organisation and should be reassured that it will not affect the quality of their products/services. This way they will not be influenced if there are rumours of cultural issues going around

HR restructuring

Relating to points 2 and 4, employees are often concerned about their position and future opportunities when an M&A happens. Changes can include a change of location, salary, career path or current role, therefore it is extremely important that they are counselled properly by HR and given training where necessary. This builds trust and loyalty for the future firm.

Downsizing

According to Kansala and Chandani (2014), this should be considered a last resort option and includes severance packages, outplacement and redeployment in order to remove or move employees with low commitment or improper skills.

Based on the literature concerning cultural conflicts and their sources, the guidelines above do indeed seem to provide a fairly good basis of how to handle the change happening during an M&A. However, they remain fairly general, and do not provide a concise guide for those at a managerial level apart from to keep communication lines open.

A key area of focus throughout the cases will be both the cultural challenges faced and how the firms responded to them. As both cross-border vs. domestic elements of M&As as well as success vs. failures are being investigated, it will be possible to see if this type of approach was taken by the successful firms and how the processes followed by the failed M&As differs. Furthermore, it will be possible to see whether there are any differences in the approach needed for organisational culture differences as opposed to national culture differences, allowing the creation of managerial recommendations based on the findings.

Chapter 3: Methodology

The purpose of this chapter is to explain the thought process and planning behind how this thesis was organised. Therefore, it includes not only the research approach, but some information on how the topic was chosen and why the thesis is structured in this way.

3.1 Thesis Topic and Structure

Topic
The topic of mergers and acquisitions is extremely broad, making it necessary to narrow down the topic of interest before being able to begin researching it in depth. After much considering and meetings with several professors it was decided that investigating *why* M&As succeed or fail was route from which most new insights could be gained as the 'true' cause remains hotly disputed even in current research. During the stages of initial investigation into this 'failure phenomenon' as it is referred to in section 2.2, culture, or cultural differences more specifically, is a topic that kept resurfacing. Whether it be national or organisational cultural differences, it was cited as a reason for failure by literature and managers alike. However, just how these cultural differences influence failure is not always entirely clear, which led to the research question and the more specific sub-sections mentioned at the end of the introduction.

The flowchart Figure 3.1 shows the basic theoretical relationship between the two types of culture and the ultimate success of an M&A. Furthermore, it attempts to show the possible influence of managerial factors on each stage of this process as will be investigated throughout this thesis.

Structure
The theoretical framework of the thesis was structured in a way as to best explain both the concepts behind mergers and acquisitions and culture and the conflict that arises from cultural differences. For this reason, the concepts surrounding M&As were first explained in detail, such as their motivations and the processes that occur during one.

Figure 3.1: The theoretical influence of culture and management on M&A outcome
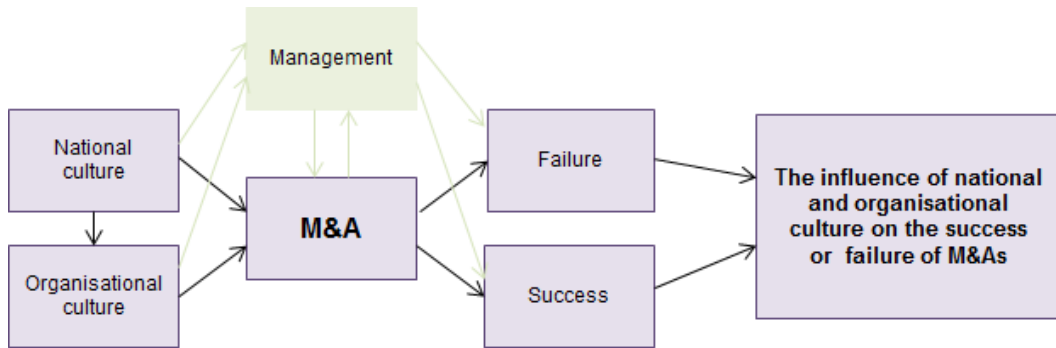
Following this, an in depth analysis on both national and organisational culture was done in order to provide a basis from which to then discuss cultural conflict, its sources and potential solutions as is discussed in the last section of the theoretical framework. This theory is then used in combination with an in depth analysis of several cases in order to draw conclusions and make managerial recommendations.

Figure 3.2: The formal structure of the thesis
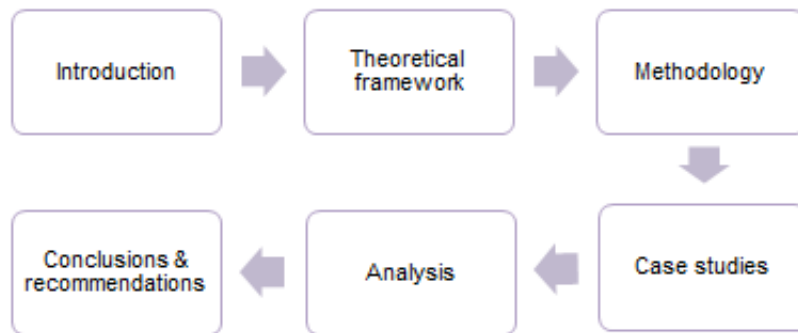
3.2 Research Approach

Qualitative or quantitative?
According to Strauss and Corbin (1998), qualitative research is '*a research about persons"
lives, lived experiences, behaviours, emotions and feelings about organizational functioning,
social movements, cultural phenomena, and interactions between nations.*' Due to the nature of the research topic chosen as well as the available time, a qualitative approach which focuses on examining more intangible variables was the most appropriate method of analysis.

Furthermore, using a qualitative method enables a more in depth look at exactly how organisational culture affects the M&A process, particularly any integration attempts, and thus how it may explain the high failure rate. There are several possible approaches to qualitative

research according to Yin (1994), which include surveys, experiments, archival analysis, history and case studies, with each having their own relevance in particular situations.

3.2.1 Data collection

A method of case study analysis was chosen in order to gather both relevant and detailed information about culture. Case studies have been described by Yin (1989; 1994) as a method that *'investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident.'* Furthermore, when using a case study method, evidence is typically collected from a variety of sources in order to get the best in depth analysis. These sources can include but are not limited to documents, interviews, observation and artefacts (Rowley, 2002). By using such a method, it allows the M&A process to be analysed in detail, including the influence of culture conflicts on particular stages of the M&A.

Collected data can be categorised as either primary or secondary, which refers to the method used to collect it (Arbnor and Bjerke, 2009). Primary data is new and collected primarily using techniques such as observation and interviews, while secondary data is information already collected and made available through methods such as journal articles, newspapers, company blogs or previous interviews and so on. Ideally, primary data would also have been included in this thesis, such as interviews with members of the firms from which the cases are chosen. This was initially the plan, and would have added additional valuable insights to the thesis, however it proved difficult in reality; the sensitive nature of the topic, particularly when it came to the 'failure' cases meant that many executives or managers were unwilling to discuss it. Furthermore, given the limited time to complete the thesis topic, those that did not reply to the inquiries had to be deemed unwilling, which left the cases to rely solely on secondary data. The sources of secondary data used included newspaper articles, company reports, past interviews conducted with relevant managerial figures, as well as published journal articles and independent articles.

3.3 Case Selection

In deciding which cases were most relevant to the research topic, first a number of high profile domestic and international M&A failures were investigated in order to determine the key causes of their failure. It was obviously important that there is a key element of culture as one of the key reasons for failure in order to be able to evaluate how and why this happened. Successful domestic and international M&As were also identified, and their management approach and processes will be used as a comparison tool against the failed M&As in order to see if there are any differences.

Based on the research question and sub questions it was decided best to select eight cases split based on the following; two successful domestic M&As, two domestic M&As that failed, two successful international M&As and two international M&As that failed. In doing so, it allows for an organisational vs. national cultural comparison, which should bring to light any differences in how the two types of culture are approached by management. Furthermore, being able to compare failed M&As to successful ones will allow insights to be gained in terms of how the M&A processes were handled by management.

3.3.1 Case studies

The matrix in Figure 3.3 shows this arrangement, as well as the cases chosen which are:

Failed international M&As
The merger between Daimler Benz and Chrysler took place in 1998. The merger faced many issues, particularly with the differences in culture between the two firms, eventually leading to a de-merger in 2007.
In 1999 Volvo Cars was acquired by Ford. With Volvo's strong Swedish culture clashed with Ford, leading to miscommunication, efficiency and ultimately profits. After continued poor performance, Volvo Cars was sold on in 2010.

Successful international M&As
British petroleum, now known as BP merged with the oil and chemical firm Amoco in 1998 to become BP Amoco PLC. Despite cultural differences, the proactive treatment of the acquisition as a 'marriage' proved a successful one.
In 1998 Deutsche Bank acquired Bankers Trust, which allowed it to achieve its goal of gaining a considerable foothold in the US. The integration process was dubbed the most successful in the industry, and Deutsche Bank gained considerable presence in the US.

Failed domestic M&As

In 2005 Sprint acquired Nextel Communications; however, an abundance of internal dispute stemming from organisational culture differences led to much of Nextel's key talent leaving. In 2012 Sprint let go of Nextel, ending the M&A.

In what was at the time the most highly valued merger ever, AOL and Time Warner aimed to bring about an online revolution. However, it also turned out to be one of the biggest failed mergers ever as well - at least in part caused by a lack of cultural due diligence.

Successful domestic M&As

In 2001 Hewlett Packard acquired former competitor Compaq. Although originally considered a failure with many issues relating to cultural differences, the two companies persevered, initiated cultural change, and eventually came out a success story.

JPMorgan Chase acquired fellow banking firm Bank One Corporation in 2004, becoming to second biggest banking group in the US, after Citigroup. Proactive management of cultural differences as well as communication were vital in this success story.

Figure 3.3: Matrix showing the classification of the case studies
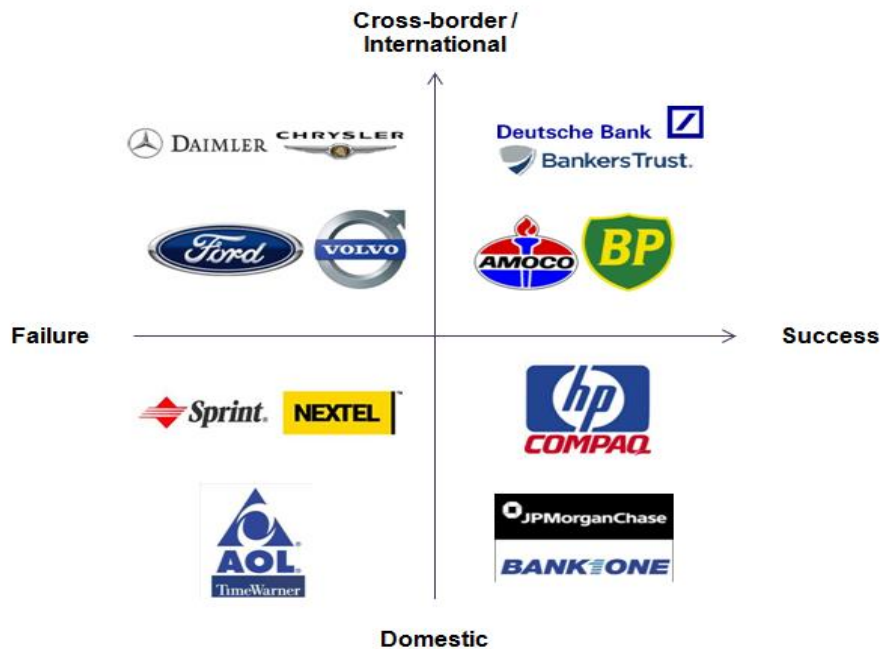
Chapter 4: Case Studies

Each of the cases will be analysed in the same way; first the background of the two companies will be described as well as the motivations and objectives for the merger or acquisition. This will set the background for the M&A, and may give initial insights into goals and differences between the two firms. Following this, the cultural differences between the firms will be analysed, as well as any conflict taking place. Managerial actions to integrate and combat conflict will then be discussed, before rounding the case off with concluding comments.

4.1 Failed International M&As

4.1.1 DaimlerChrysler merger

Introduction

The first case is one that shook the auto industry to the core; it is the $36 billion Daimler Benz-Chrysler 'merger of equals' that took place in November 1998. At the time was the largest trans-Atlantic merger to date (Vlasic & Stertz, 2000) and the resulting DaimlerChrysler firm became the fifth largest auto manufacturer in the world. Schneider (2001) aptly compared the DaimlerChrysler merger to the royal wedding between Charles and Diana; '*An elite, old-line company, Daimler-Benz, had asked for the hand of a beautiful, populist bride, the Chrysler Corporation, and its petition had been accepted. It was a dream match*.' It is somewhat ironic then, that the perfect merger between the two corporations should end in such a similar way as the perfect wedding.

Cultural conflict is often cited as a major contributor to the DaimlerChrysler downfall, despite the fact that differences between German and American culture were expected to be minimal (Finkelstein, 2002). However, as we will learn in the cultural analysis below, this was certainly not the case and within months the '*pots and pans started flying*' as Vlasic & Stertz (2000) aptly put it. The inability to overcome these issues, as well as a continually poor financial performance led to an eventual demerger in 2007.

Company histories

Created in 1926, Daimler-Benz A.G. was itself the child of a merger between Daimler Motoren Gesellschaft and Benz & Cie Rheinische Gasmotorenfabrik; two German car manufacturers. In the coming decades the name Daimler-Benz, best known for the Mercedes Benz brand,

was noted for the high quality and craftsmanship of their automobile range (Daimler AG, n.d.). After several unprofitable ventures in the 1980's that had the aim of diversifying product lines, Daimler-Benz began to cut unprofitable segments of the portfolio (Daimler-Benz Group, 1995) and consolidate back towards focusing on quality cars and expanding their profitability and reach in that area (St. Jean, 2000). By 1997, Daimler-Benz operated in five different segments; Passenger cars, commercial vehicles, aerospace, services (e.g. financial, media etc) and directly managed businesses (e.g. rail systems, engines) (Daimler-Benz Group, 1997). Overall revenues at this time came primarily from Europe at 58%, with North America following suit with 21% (St. Jean, 2000), although Daimler-Benz struggled to gain significant market share in the competitive U.S. market (Hollmann, Carpes & Beuron, 2010).

The Chrysler Corporation was founded in 1925 by its namesake Walter Chrysler, and became one of what is known as the 'Big Three' car manufacturers in the US, alongside General Motors and Ford (Vlasic, 2012). The Chrysler style embodied the adventurous American spirit in a time when imports dominated the market, making it an instant hit which continued to be popular throughout the next decades (Finkelstein, 2002). Despite this, Chrysler ran into financial difficulty several times in the 73 years between its foundation and the merger, bouncing back from the brink of bankruptcy four times during this period (Ingrassia & White, 1994). In the years running up to the merger, Chrysler was performing well, with a 23% share in the U.S. market in 1997 and the status of most profitable car manufacturer in the world (Finkelstein, 2002).

The merger

<u>Motives</u>
The motives behind the merger were similar, in some respects at least, for both Daimler-Benz and Chrysler and there was mutual optimism about the potential gains for the two companies. Despite being strong in the European market place, Daimler-Benz was struggling in America; they only managed to capture 1% of the market available for their luxury cars (Finkelstein, 2002). Chrysler seemed to complement Daimler-Benz perfectly at the time; they had a strong base in North America, but were weak elsewhere around the globe, meaning the two firms could leverage each other's presence in other marketplaces after the merge, in order to further their own lines.

Furthermore, the two firms could learn from each other's strengths when it came to development and production. Daimler-Benz struggled with high production intensity associated with their high quality cars, while Chrysler was more pioneering but low quality in design,

making cars to meet the needs of ordinary Americans. (St. Jean, 2000). Combined, they would not only be able to capture much more of the international market, but also weather the recession that was predicted to hit the car industry in the early 2000s (Cooney & Yacobucci, 2007).

<u>The deal</u>

The merger was announced in May 1998 and officially took place in November of the same year, amounting to a total value of $36 billion. Daimler contributed around 57% of the stock market value contributing to this, while Chrysler contributed 43% (Schneider, 2001). At the time it was considered the largest trans-Atlantic merger ever and the resulting firm - DaimlerChrysler- became the world's fifth largest auto manufacturer (Finkelstein, 2002). In terms of management organisation, there would be two headquarters, both in Michigan and Stuttgart and both Schrempp and Eaton, the CEOs of Daimler and Chrysler respectively would rule side by side for three years, after which Schrempp would take over the reins (Schneider, 2001). Furthermore, the board would be made up of executives from both firms.

The CEO of Daimler-Benz (and subsequently DaimlerChrysler) said of the merger at the time '*[we will] have the size, the profitability and the reach to take on everyone… [and be] the most profitable automotive company in the world.*' (Ball & Miller, 2000). The stock price initially reflected this seemingly perfect deal, however within six months the honeymoon period was over and the share price took a nosedive and remained low, as can be seen in Figure 4.1. Just how did this happen?

Figure 4.1: DaimlerChrysler pre and post-merger share prices

Source: 'The DaimlerChrysler emulsion,' (2000)

Integration efforts

The DaimlerChrysler merger was initially dubbed one 'of equals', insinuating that emphasis would be placed on equal treatment of both parties and thus equal respect for their individual cultures during the integration process. Priority was placed on integration organisational cultures rather than national ones, as the executives believed it would pose little issue (St. Jean, 2000).

Initially equality seemed to be the name of the game; a Chairmen's Integration Council (CIC) was created to ensure several principles, for example speed, accountability and transparency, were met when it came to the execution of the integration of the two firms (Morosini & Rudler, 1999). A post-merger integration team was also to be introduced to oversee not only potential synergies, but cultures and morale as well (St. Jean, 2000). In addition to this, sensitivity workshops were conducted in order to introduce each firm to the culture of the other, although with topics such as 'German dining etiquette', some questioned the focus of the integration efforts (Finkelstein, 2002).

Following disappointing earnings in the first six months, the cultural integration attempts had begun to disintegrate, with Daimler executives gradually taking more and more control from those at Chrysler. Executives not in the CIC 'loop' regarded their exclusion as a slap in the face, and the system was quickly reverted back to the traditional management board (St. Jean, 2000). Neither could the two firms agree on the purpose of the post-merger integration team and its potential was therefore not realised. This is highlighted by a member of the integration team, who stated that, 'the training courses were not exactly helpful' (Schneider, 2001), often reflecting stereotypical behaviour that wasn't related to business dealings. In essence, integration efforts were superficial; guidelines were provided but from the outset they often failed to address key cultural differences and even when the guidelines were correct, there is limited evidence that they were followed. A key example of this is transparency during the merger and integration process, which was clearly not followed as we will see.

Between 1998 and 2001 the relationship between the two firms remained ambiguous at best, with Daimler neither taking full control of Chrysler, nor allowing them equality in the partnership (Meyer, Rukstad, Coughlan & Jansen, 2002). They remained separate brands, targeting separate segments, however Daimler expected Chrysler to toe the line when it came to strategy and behaviour within the merged entity. Daimler CEO Jurgen Schrempp later admitted in 2001 that the term merger was primarily used for psychological reasons and to get those from Chrysler on board (Schneider, 2001), while Bud Liebler, the head of marketing at Chrysler

admitted '*We should never have called this a merger of equals...it was an acquisition, and by calling it something else we confused a lot of people*' (Vlasic & Stertz, 2000). Thus, the direction of the integration process changed from primarily preserving the culture of the two firms, to Daimler moving to absorb that of Chrysler (Curry, 2009).

Cultural differences, conflict and what went wrong

Throughout this integration process, a cultural storm had brewed and been escalated into a full blown hurricane in the DaimlerChrysler firm. They faced the issue that it joined two firms with both completely different organisational and completely different national cultures; those of Germany and the US. This proved to be double the trouble, causing conflict between the members of the two firms that proved impossible to overcome and caused irreparable damage to their relationship.

<u>National culture perspective</u>
As national culture has a significant influence on the development of an organisational culture within a firm (Erez & Drori, 2009), it is logical to first examine the cultural differences between Germany and the US and any effects they appear to have in creating conflict. Following this organisational differences and conflicts will be discussed. For illustrative purposes we will use the newest Hofstede model for this, though it is important to remember that cultural differences alone do not necessarily cause cultural conflict.

Figure 4.2: National culture differences between Germany and the United States
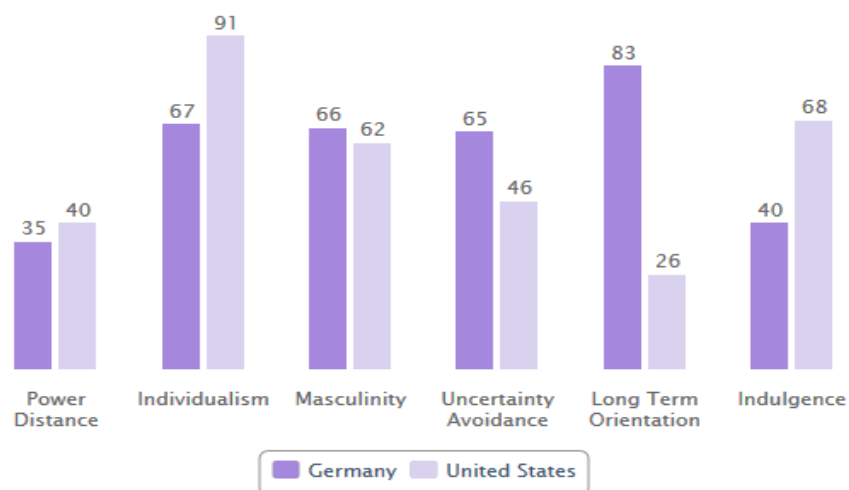
Source: Hofstede (n.d.)

As can be seen in Figure 4.2, both countries have a similar power distance and level of masculinity. On the other hand, individualism, indulgence and uncertainty avoidance scores are quite different, while the scores on the long term orientation dimension are at different ends of the scale. By taking a closer look at these differing scores, it may give a better indication as to why so many conflicts arose.

Both Germany and the US have individualistic tendencies, however those of the US are considerably higher with an extreme score of 91. This reflects the fact that American society tends to be more loosely-knit (Hofstede, n.d.) and priority is placed on a person's immediate circle (Hofstede, 2011). In terms of a business environment, this may be reflected in an expectation to take initiative and be self-reliant rather than relying on the guidance of others. We can see this individualistic behaviour, particularly in the behaviour of the top management of Chrysler.

The United States also scored as a nation more prone to indulgence, while German scores are on the side of restraint (Hofstede, n.d.). Whether this is accurate in the case of DaimlerChrysler is debatable, as the Daimler propensity for lavish spending was a major point of contention between the two firms, as will be discussed further below.

When it comes to uncertainty avoidance, Germany scores relatively highly, which reflects the fact they typically value a structured environment and have a low tolerance for ambiguity, while the US scores just below the middle point, meaning they are less averse to the unknown and taking risks (Nardon & Steers, 2009). This can be seen throughout the merger in ways which were subtle, yet obvious enough to cause conflict. For example, those at Daimler tended to be the over prepared in meetings, while Americans preferred to 'talk it out' (St. Jean, 2000). Furthermore, Chrysler were known as pioneering and risk taking in comparison to Daimler - who preferred to rely on known quality rather than trying new things. Daimler also tended to stall ideas from Chrysler executives until further analysis and reasoning could be conducted, something which frustrated Chrysler executives (Finkelstein, 2002). Although none of these incidents alone seem critical, together these kind of incidents proved to be the straws that contributed to breaking the camel's back.

In terms of comparing national culture dimension scores, the largest difference between the two nations can be seen in the long vs. short term orientation dimension. A low score on this dimension, such as that of the US, indicates an emphasis on traditions and obligations (Nardon & Steers, 2009). Americans tend to have a very polarised view of what is acceptable and what isn't, and when it comes to business they are very short term oriented, striving for quick results

(Hofstede, n.d.). In comparison, Germany's high score indicates that they are more pragmatic, and tend to adapt traditions more to suit the situation.

<u>Organisational culture perspective</u>

If we now look at cultural differences from an organisational perspective, from the outset, the two firms had completely different business philosophies and ways of working. The founding principle of Daimler-Benz was '*quality at any cost*', which had contributed to its need for a partner in the first place (Meyer et al, 2002), while Chrysler was on the other end of the spectrum, producing more budget friendly cars for the typical American family. Furthermore, the auto industry tends to evoke strong emotions, both among customers and employees (Schneider, 2001) and when the brands are as strong and identifiable as Daimler and Chrysler, it can lead to a reluctance for change, both from within and outwith the firm.

This is essentially what occurred after the DaimlerChrysler merger. Neither firm wanted to secede too much power or influence to the other. Neither did they want to integrate the two sides too much for fear of being 'tainted' by the other; this was particularly true of Daimler, who was the more luxurious brand of the two. The result of this was that supply and cost benefits were not entirely realised; for example, Daimler would not allow cars to be produced in a Chrysler factory without strict changes (Meyer et al, 2002). In addition to this, the two firms refused to stock each other's cars in their retail environments. Again, Daimler was particularly guilty of this, as they seemed to be more concerned about protecting their brand than what their partners would think of this snub. This counteracted one of the main goals for the DaimlerChrysler merger, which was for the firms to gain a stronger foothold in each other's' respective marketplace (Meyer et al, 2002). The two sides even showed their bias in public forums, with Daimler executives joking that they 'would never drive a Chrysler… [they] barely last 2 and a half years' (Meyer et al, 2002).

The governance structure of the two firms was also completely different. Daimler-Benz was much more traditionally structured, being more hierarchical and with top down decision making, while Chrysler was much flatter in this respect (Curry, 2009) and worked with departments acting as a single business unit. The two firms disputed on how best to appoint managers within DaimlerChrysler, as neither wanted to change to the others way of working. Furthermore, the working environment at Daimler-Benz was much more formal, with a suit and tie dress code and use of proper titles, while the atmosphere at Chrysler was much more casual (St. Jean, 2000). This doesn't appear to have caused specific conflict, however must have added to the sense of 'them' and 'us' that was already taking place.

Another area of quarrel between the two sides was the attitude taken towards money and spending. An example of this is the huge gap in pay between executives doing the same job in each of the two firms (Schneider, 2001). Those in Chrysler could expect to earn up to four times more than their Daimler counterpart, as executive pay packages are much more conservative in Europe than in the US (Vlasic & Stertz, 2000). On the other hand, spending on things such as executive travel, meetings and events was much more extravagant for the Daimler executives. They often had to fly to New York for meetings and were used to doing so in first class, booked into an expensive hotel even if they weren't staying the night. Chrysler President Thomas Stallkamp estimated the cost of this kind of behaviour to range between three and five million dollars per year (Vlasic & Stertz, 2000). This understandably caused a rift between them and the thriftier Chrysler team, who, being used to brushes with bankruptcy, were much more conscious of spending and often flew economy class or stayed in more budget friendly hotels.

Were there other reasons for failure?

Although the primary catalyst for the disintegration of this merger appears to be related to culture, there are other factors, which themselves may be linked to culture, that also played a role in the downfall of DaimlerChrysler.

There was a sense of distrust and uneasiness between the two firms from the very beginning. As has already been mentioned in this case, the way the deal was portrayed was as a merger of equals; however, Daimler-Benz had always intended it to be more of a takeover (Hakim, 2003). As such, Chrysler never got the equal say they were promised and this lack of transparency left their employees feeling insecure about their place in the company (The DaimlerChrysler emulsion, 2000)

Leadership issues were a thorn in the side of DaimlerChrysler since soon after its creation. Despite the fact that leadership was initially shared between Schrempp and Eaton, due to the various cultural differences and conflicts, Eaton was left despondent and apathetic, and sometimes went weeks without talking to Schrempp (Vlasic & Stertz, 2000). Instead of championing the Chrysler cause, he became more of a wallflower. When Eaton finally withdrew, Schrempp was hesitant to take control earlier than the agreed time. This left in a sense a leadership vacuum, with concerns not being properly addressed and a general sense of uncertainty which cause key talent to go elsewhere.

After initial success, as can be seen in Figure 4.3, the profits of DaimlerChrysler began to stagnate. It was expected that together the two firms would cut costs and increase profits through created synergies (Vlasic & Stertz, 2000). However, the issues with product development and stocking both brands in one retail environment, which are also related to organisational culture, meant that these synergies were never realised.

Conclusion

After a lengthy period of poor performance which was marred by losses, internal conflicts and low stock value, an official demerger took place in 2007, as Daimler look to return their focus to pre-merger values and types of customers.

Although perhaps not the sole reason for failure, cultural conflict is often cited as a main contributor (Finkelstein, 2002) as to why this particular merger fell apart, as is evidenced above. Even when considering the other reasons given for the failure, each of these could also be individually influenced by culture, as it is such an inherent factor in the way people perceive and behave. If we consider the impact of national culture in comparison to organisational culture in this case, it does appear that while there were national culture differences and that they sometimes created tension, organisational culture differences are what caused the most critical conflict between the two firms. The mismanagement by the executives of both the integration process and the ensuing conflicts meant that they were left to fester, making them develop into much bigger issues than they otherwise had to be.

4.1.2 Ford Motor Company acquisition of Volvo Cars

Introduction

The second cross-border failure case is the $6.45 billion acquisition of Volvo Cars by U.S. automobile giant Ford, which took place in January 1999. The takeover meant that Volvo became one of several high end brands in Ford's new Premier Automotive Group, alongside the likes of Land Rover, Jaguar and Aston Martin (Flint, 2004).

However, the story between Ford and Volvo is no fairytale. National and organisational culture differences led to feelings of discomfort and change within Volvo; as the acquiree they were forced to take it on the chin (Palus, 2009). Often confusion or miscommunication led to inefficiencies of meetings, decision making, and particularly strategies, which in turn affected profits. Continued poor financial performance from Volvo came to a head during the financial

crisis of 2008-2009, where sales dropped by 18.3% in 2008 and 10.6% in 2009 (Wan, 2015). This ultimately led to Volvo being sold for $1.8 billion to Chinese automobile firm Zhejiang Geely Holding Group Company Limited, an amount considerably lower than what they had bought it for (Logan, 2015).

Company histories

Founded in 1903 by Henry Ford and based in Detroit, Ford Motor Company grew to become one of the largest car manufacturers not only in the US, where it is a 'Big Three' member, but throughout the world (Ford Motor Company, n.d.). Despite two world wars, various economic recessions, and occasional family issues (such as sickness), Henry's descendants have managed remain in control of the firm for most of its history, and are still represented in its managerial team to this day (Oxelman, Gustav & Stohm, 2008). From the original Quadricycle in 1896 up to the present day, Ford has continuously innovated to create new and iconic models, such as the Thunderbird, Model T and the infamous Mustang. Ford primarily focuses on innovative, yet affordable cars, however, after acquiring luxury car brand Lincoln in 1922, Ford looked to expand this segment by purchasing Land Rover, Jaguar, Aston Martin and eventually Volvo throughout the late 80s, 90s and early 2000s, creating their Premier Automotive Group (Ford Motor Company, n.d.). However, the majority of these were unprofitable or did not live up to expectations, and have since been divested, with only Lincoln remaining under Ford control.

Volvo Car Corporation has switched hands several times during its history. Founded in Sweden in 1927, with headquarters in Gothenburg, the auto manufacturer was originally a subsidiary of Swedish ball bearing producer SKF, however was sold to AB Volvo in 1935 and remained under their control until the Ford acquisition in 1999 (Wang, 2011). Volvo has concentrated on the more luxurious car market, however focused on building its reputation on the premise of quality and safety, rather than slick design - something for which it is still known for today. With production centres as well as headquarters in Sweden, it is one of the largest employers in Sweden as well as the Nordic region (Wan, 2015), while its largest markets at the time of transaction were the U.K., Sweden and the Netherlands (Harris, 2014). After being acquired by Ford, Volvo Cars remained under their control until 2010, when the decision was made to sell it on to the Chinese auto manufacturer Zhejiang Geely Holding Group.

The acquisition

Motives

The Ford acquisition of Volvo Cars took place at a time when globalization was becoming necessary for large firms looking to remain profitable, particularly in the auto industry (Flint, 2008). Although Ford did have international production plants, it wanted to expand its presence by acquiring additional brands and catch up with General Motors, the world's number one automaker. Ford particularly wanted to diversify its offering by offering more premium branded products (DePamphilis, 2010), as can be seen through the establishment of the Premier Automotive Group, and the acquisition of several other luxury car brands before Volvo (Land Rover and Jaguar).

By adding Volvo to this portfolio, Ford hoped to not only increase its luxury car sales almost twofold, but also to reach a different segment, primarily females and younger drivers (Wielgat & Deep, 1999). AB Volvo on the other hand, wanted to consolidate rather than diversify. By selling off Volvo Cars, it allowed them to reinvest the funds raised by the deal in expanding the truck and commercial vehicle side of the business, which they wanted to concentrate more on. Furthermore, by joining forces with a much larger company, Volvo cars hoped to weather unfavourable economic conditions by taking advantage of the economies of scale that Ford could provide (Harris, 2014).

The deal

In January 1999 the Volvo Group announced the coming sale of its Volvo Cars division to Ford Motor Company for the princely sum to $6.5 billion (Hendrickson, 2015). The deal officially took place the following year and Volvo Cars became part of Ford's portfolio of premium car brands. Since both companies would retain an element of the Volvo brand, it is worth clarifying that Ford gained the rights to use the Volvo name for passenger vehicles, while AB Volvo kept the rights to the name for commercial vehicle use (Wielgat & Deep, 1999). Ford did not want to impose its brand or affect the identity of Volvo Cars through the acquisition; it simply wanted to expand its reach within the luxury car market. Therefore, Volvo would retain its two major production plants and its headquarters in Gothenburg and while ultimate strategic control would lie with Ford, the core human resources and philosophy of Volvo would remain (Piazza, 2002). Despite optimism from both sides over the deal, Volvo Cars did not have a history of huge profits - $400 million on a good year - and a reporter stated at the time, '*as long as the sun shines and the wind blows Ford will never recover its investment*' (Flint, 2008), which in hindsight turned out to be a prophetic statement.

Integration efforts

In order to try and integrate the two firms, Ford first conducted extensive due diligence over a period of 6 months to analyse any potential synergies. They focused primarily on financial synergies, such as where costs would be reduced, or profits increased through creating value (Salama, 2011). Although, there were glaring cultural differences between the firms and their respective countries, the potential cultural impact of the union was overlooked at this stage. Ford then created a special integration team, in which 18 pairs of Ford and Volvo employees were matched, and tasked with both reporting any issues that arose and recognising potential synergies in different areas of the business (Salama, Holland & Vinten, 2003). Ford and Volvo employees in this team were divided evenly, even though they were not equal partners in the acquisition process - this gave a sense of equality and contradicted the otherwise expected controlling behaviour (Salama et al, 2003).

As already mentioned, it was not Ford's intention to march in and overpower Volvo - they wanted Volvo to remain in control of most headquarter activities and business dealings, and to retain their reputation for quality and safety that they had built (Piazza, 2002). When it came to cultural differences, Ford understood that working around and learning from each other's cultures was key to the success of the acquisition (Vu & Rusi, 2010), which is the reasoning behind the creation of the matched pairs.

Some aspects of the integration process in this case were successful, if at least for a while. Certain synergies were achieved, although they were primarily related to technology transfer and R&D (Salama et al, 2003). For example, the best engineers from Volvo would go to work at Ford to benefit the whole group (Salama, 2011). However, whether cultural integration was successful is not as clear; despite working hard to overcome cultural issues that arose during the process, they were not planned for during the pre-merger stage. As Volvos performance failed to meet original expectations over the next few years, Ford moved to close ranks. One Ford official stated '*We're starting to lean on Volvo to be more integrated into Ford and they don't like it...they don't want to be more integrated*' (Wernle, 2003). The two sides went back and forth in this debate - Volvo was profitable, but Ford wanted more. Executives at Ford felt Volvo could be more efficient, and those at Volvo felt Ford was putting too much strain on the smaller company (Wernle, 2003) and alienating it as a result. After years of trying and failing to implement profitable change at Volvo, Ford decided to cut its losses and sell the company on.

Cultural differences, conflict and what went wrong

Despite Ford having integration processes in place, they never quite managed to overcome the cultural differences they have with Volvo. Although it did not create a public mudslinging match, such as was the extreme situation with DaimlerChrysler, the tensions eventually snowballed into feelings of resentment that affected the relationship the two firms had with each other. National culture differences seem to have played the most influential role in this conflict, however as with the previous case, both national and organisational cultural differences will be discussed.

National culture perspective

Figure 4.3: National culture differences between Sweden and the United States
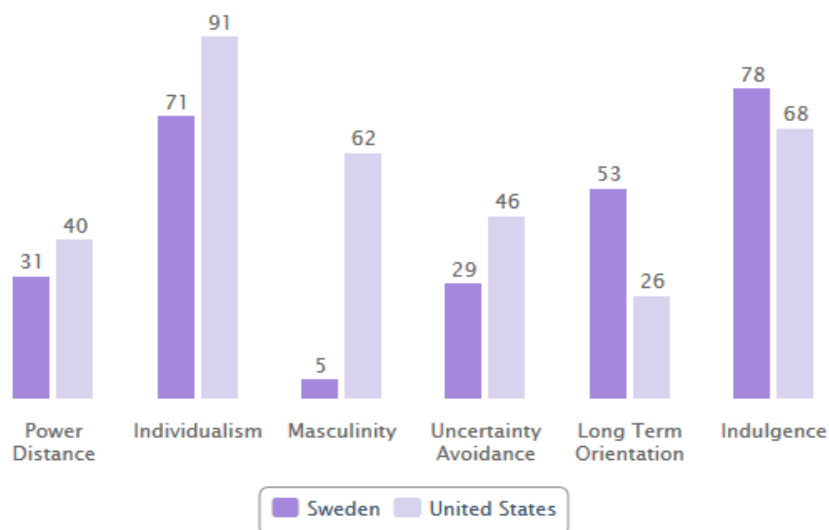
Source: Hofstede (n.d.)

The two countries are very similar in terms of both the power distance trait, which is on the low end for both countries, and indulgence, which is high for both countries. There are moderate differences in uncertainty avoidance, long term orientation and individualism between the countries, while masculinity scores are at complete opposite ends of the spectrum (Hofstede, n.d.). Differences in each of these cultural dimensions do appear to have caused conflict in different ways, as discussed below.

In terms of uncertainty avoidance, Sweden has a low score, which reflects the fact that it typically has a very relaxed and flexible business demeanour (Hofstede, n.d.). The US scores more averagely in this respect, while not overly high on uncertainty avoidance, it is more so

than Sweden. Still, it is possible to see these traits reflected in the structure and behaviour of the two firms. Ford was much more hierarchical in nature, while in Volvo everyone's input was treated more equally (Wernle, 2003), which will be discussed in more depth in terms of organisational culture below. In addition to this, Ford found standardisation important and often solved problem through comprehensive analysis done by their R&D team (Palus, 2009). Volvo on the other hand encouraged all workers to suggest and help to develop solutions to problems they encountered while on the job (Palus, 2009). As a result, members of Volvo often felt stifled by Ford, and innovations that were previously being worked on were either abandoned or put on hold for the duration of their ownership, such as hybrid car development (Flint, 2008), which led to a mounting sense of frustration.

The US is also more short-term orientated than Sweden, who is neither strongly long- or short-term orientated. As mentioned, in relation to business this dimension represents the keenness to follow traditions and how quickly results are expected (Hofstede, n.d.). This is reflected in the business practices of Ford, who were keen to see big results from Volvo from the moment of acquisition. The desire for quick results itself did not create any conflict, however those within Volvo did feel an uncomfortable pressure to deliver, particularly when Ford pushed to increase performance after sales did not increase (Wernle, 2003). When results continued to flounder, Ford replaced the CEO of Volvo with Odell, the second in command at Ford of Europe, rather than risk letting poor performance continue (Flint, 2008).

The US and Sweden are quite different in terms of their level of individualism. Although both are individualistic in nature, the US is extreme in this respect, it is a nation ranked the most individualistic of all those studied by Hofstede (Hofstede, n.d.) and this is clearly reflected in the behaviour of their employees. Volvo employees found that their U.S. equivalents tended to act quite selfishly, doing what was best for themselves rather than for the good of the company, which caused resentment between the two sides. One Volvo manager commented on this, '*If I am going to Frankfurt or America, then I won't fly business class unless I have to; I always try to get a coach class ticket...but it seems like...if you allow an American employee the freedom of choice, well, then he will fly first class*' (Styhre, Borjesson & Wicicenberg, 2006:1300). Despite also being an individualistic nation according to Hofstede (although less so than the US), the culture within Volvo didn't seem to reflect this. If one goes by the testimonies from its employees, who claim that employees are not afraid to state their opinions in order to '*...safeguard a company against bad decisions from owners or from managers. There is an individual commitment to the product and the way things are carried out*' (Wernle, 2003). Under Ford ownership Volvo became more impersonal and less 'Swedish' in terms of how business was done, much to the dismay of the employees there (Palus, 2009).

Undoubtedly the biggest difference between the two countries is the level of masculinity represented in their national cultures. While the US is moderately masculine, Sweden is one of the most feminine countries on Hofstede's scale (Hofstede, n.d.). While masculine nations are primarily driven by success and a sense of competition, feminine nations on the other hand strive for equality and inclusion for everyone (Hofstede, n.d.). This presented itself in glaring differences between the philosophies and cultures of the two firms, which was summarised well by a Volvo employee, *'We Swedes, we aim for the stars and then we reach the treetops. For the Americans, if you aim for the stars, then you need to reach them too'* (Styhre et al, 2006:300). Furthermore, Volvo cared primarily about its customers and the quality and safety of its product, while Ford was driven primarily by profit (Flint, 2008). This certainly created conflict between the two firms, who disagreed both on strategic decisions regarding priorities and also on the ever increasing control Ford was trying to exert over Volvo.

Organisational culture perspective

Looking at the two firms from an organisational perspective, the differences are clear, as are the links between the culture within each organisation and their national cultures. As was also the case with the DaimlerChrysler merger, the philosophies of Ford and Volvo were very different, almost opposites in some respects. While Ford is primarily driven by success, profits, and the aim of continued expansion, Volvo cares more about quality, safety and the happiness of their customers and employees (Flint, 2008). As one employee stated, Volvo focuses on creating cars '*for the person who cares about people, who cares about safety and the environment, about balance in life*' (Flint, 2008). Furthermore, this strong, Swedish 'Volvoness' was present not only throughout every level of the organisation, but also in every foreign division of the company (Vu & Rusi, 2010). When Ford acquired Volvo, its purpose of doing so was to increase its presence and market share of the luxury car market as well as growing Volvo to increase overall sales (ref). When sales did not increase organically at the pace Ford wanted, it felt the need to implement drastic changes; however, this was met with resistance from Volvo employees (ref?). Their goal was never world domination, and they resented the fact that Ford was trying to eliminate their unique culture and mould Volvo in their image, especially because they felt this strategy would not be successful (Flint, 2008).

Another key organisational difference between Ford and Volvo are their governance structures. Ford management was much more hierarchical in nature, with an organisational culture actually based on that of the U.S. military, while in Volvo everyone's input was treated more equally and had an input (Wernle, 2003). Volvo valued and actively encouraged input from its employees, and its employees also felt more comfortable in sharing their input and

opinions due to a more informal atmosphere in which managers and other employees were on the same level (Merger integration at Ford and Volvo, 2006). Ford on the other hand, had much more regulations and hoops to jump through when it came to making decisions (Vu & Rusi). One example of this is the fact that, unlike at Volvo, engineers at ford are not allowed to make decisions, they need to pass their suggestions up the chain of hierarchy to the managerial level, who will then consider it (Merger integration at Ford and Volvo, 2006). Those at Volvo found this extremely tiresome; they also felt Ford had too much bureaucracy and could spent an entire day in a meeting without achieving anything, which executives from Volvo were obviously also dragged into (ref). It particularly angered them to them be called inefficient, due to a conscious careful production process, and for Ford to intervene to try and change this.

Were there other reasons for failure?

As mentioned, a major motivation for the merger was for Ford to expand its presence into the luxury car market, as well as creating synergies within this market via R&D and production cooperation (DePamphilis, 2010). This was reflected in its choice to acquire not only Volvo, but Land Rover, Jaguar and eventually Aston Martin as well.

Ford was initially successful in creating some synergies between the two companies, though this was primary from technology transfer, through initiatives such as Volvo's best going to work for Ford and stimulating innovation and developments in this way (Salama, 2011). However, the value this created was far from the estimated figure of $1.1 billion in synergy gains that Ford had expected to achieve (DePamphilis, 2010). It was one in a series of financial disappointments for Ford.

Furthermore, the acquisition of Volvo did not have the success that Ford had hoped for. Although still managing to make profit for some of its time under Ford, unlike some of their other luxury acquisitions, its profits continued to decline throughout the period of Ford's ownership (Ford Motor Company, 2009) and eventually disappeared altogether. Before the acquisition, Volvo was making approximately $400 million in a year that they had good sales (Flint, 2008); however, towards the end of their time under Ford, Volvo was haemorrhaging money. In 2007, despite having their best year of sales to date, 458,323 to be precise, Volvo lost $164 million over the course of the year (Flint, 2008).
In the eyes of Ford, both performance at Volvo and poor synergy creation between the two firms were a letdown and led to its eventual sale. Why this happened can be partially linked back to the cultural issues between the two firms, in particular their priorities and philosophies.

While Ford strived for maximum efficiency and profit, Volvo did not, and was not willing to change its 'Swedishness' for Ford.

Conclusion

After continued poor results in 2008 and 2009 (Ford Motor Company, 2009), the poor performance of Volvo was starting to be a burden to Ford, whose financial situation was also suffering as a result (Wan, 2015). In early 2010, Ford made the decision to sell Volvo to Chinese auto manufacturer Zhejiang Geely Holding Group Co. Ltd for the sum of $1.5 billion (Logan, 2015).

When it comes to the biggest influential of the failure of this acquisition, it appears to have been national culture. This is due to the fact that the organisational culture of the two firms, particularly Volvo, was so heavily influenced by its national culture. It wanted to remain an independent subsidiary of Ford, while Ford - spurred by Volvos ailing profits - wanted to draw them even closer. Those within Volvo felt used by Ford, and it never managed to recover performance under Ford leadership (Flint, 2008).

4.2 Successful International M&As

4.2.1 British Petroleum and Amoco merger

Introduction

The first of the two successful cases of international M&As that we will investigate is that of British Petroleum (now simply BP) and the Amoco Oil Company. In 1998 British Petroleum announced and finalised the merger with Amoco, a US oil company for $48.2 billion, making it the largest M&A to date at that point, overtaking DaimlerChrysler (Jones, 1998). The mega-merger catapulted the new BP-Amoco firm into not only being one of the top worldwide energy firms, but also Britain's largest corporation and the largest U.S. oil and gas producer (Moore, 1998).

This merger is often cited as being one of the most successful cases of integration between two large corporations, as it not only achieved expected synergies but surpassed them (Salama et al, 2003). Furthermore, they managed to successfully integrate the two organisations culturally and create new management systems using the best practices of both (Salama et al, 2003). This case will take a closer look at how they managed to achieve this.

History of the two companies

After a long and arduous search, William Knox D'Ar finally struck oil in 1908, in an area of Persia that is now modern day Iran. With that, BP's original incarnation - the Anglo-Persian Oil Company - was founded (Tharoor, 2010). Following instability in the gulf region and a political boycott after the nationalisation of the Iranian oil industry, the firm looked to distance itself from the crisis and became known as British Petroleum, now known simply as BP plc (Tharoor, 2010). It's fair to say that BP has seen its fair share of controversy throughout its history, nonetheless, by 1998; it was already a major contender in the worldwide oil industry and looked set to stay that way. It is also important to note that BP not only just sold oil, but operated across all activities of the oil and gas industry, from exploration to refining to commercial sales, as well as developing renewable energy (BP Global, n.d.).

Amoco started out its life as a simple, single facility oil refining business in 1889, in the town of Whiting, Indiana. It was then known as Standard Oil of Indiana, and in the following years the business grew exponentially, both due to the strategic acquisition of the American Oil Company and the increasing worldwide demand for oil (Leffall, 1998). The firm also branched out from refining to exploration and sourcing its own crude oil, as well as discovering several crucial patents, such as thermal cracking and Hydrafrac, which boosted efficiency for the entire industry (BP Global, n.d.). Their growth continued throughout the 20th century, until they were the largest natural gas producer in North America and had considerable international reach (BP Global, n.d.).

The merger

Motives

There appear to be several motivations behind BP's decision to merge with Amoco. The first is to achieve a more globally dominant position; summarised ideally by Sir John Brown, a chief executive of London BP, '*International competition in the industry is already fierce and will grow more acute as new players emerge. In such a climate the best investment opportunities will go increasingly to companies that have the size and financial strength to take on those large-scale projects that offer a truly distinctive return*' (Jones, 1998). Although BP was already a large, multinational corporation at this point, so were all of its competitors and it was not without its own weaknesses. BP wanted to fill these strategic gaps, such as low gas reserves poor presence in the US, and saw the best way of doing this was a merger with a company that was already strong in these key areas - namely Amoco (Gomes, Weber, Brown & Tarba,

2011). For Amoco, motivations were similar. Despite having an international presence, their primary focus had been on the American market, which had reached its saturation point (Jones, 1998). In order to survive, they needed to become more competitive in emerging markets, which BP could help them do. By coming together, the two firms would become a superpower that could truly compete on a global scale.

Another factor which may have influenced the decision to merge is the fact that the price of oil during this period had taken a dive to its lowest point in 25 years, and was continuing to fall (Jones, 1998). This price decrease had squeezed the two firms, with Amoco profits falling almost 50% in the first half of 1998 alone (Jones, 1998). So logically, as John Lichtblau, president of the Petroleum Industry Research Foundation put it, '*The motivation to cut costs is bigger when profits decline...and that has been very much the case for both of these companies*' (Rhodes & Crow, 1998). The two firms hoped therefore, to create synergies that would both cut costs and increase production and ultimately profit.

The deal

In August 1998 British Petroleum announced that they would be merging with the U.S. energy firm Amoco and the deal was finalised later that year in December, for a price to the tune of $48.2 billion (Steinmetz, Goldsmith & Lipin, 1998). The deal would promote the new firm, later to be known as BP Amoco, into the 'premier league' of the energy industry (Gomes et al, 2011), allowing it to become more competitive on a global scale. The market place seemed to respond favourably to the merger announcement, with shares of BP increasing by 15% immediately following (BP and Amoco in oil mega-merger, 1998). Although the transaction is classed as a merger, BP was the dominant partner in the deal, both in terms of size and revenues before the deal, and the fact that 60% of the shares would remain under control of BP shareholders, while Amoco would receive the remaining 40% (Moore, 1998). Furthermore, there would only be one headquarter, to be based in London.

Integration efforts

The integration process of BP and Amoco is often held up as a shining example for others to follow; with expectations not only achieved but exceeded, and successful integration throughout various levels of the organisation, including culturally. The two firms recognised from the outset the need being proactively when it came to integration, as was mentioned by one of their property managers, '*The success of the merger depended on how fast we could integrate those cultures into one*' (Ingalls, 2002).

'*Fail to plan, plan to fail*', is an age old phrase that is particularly relevant when it comes to the successful integration between two firms after an M&A. As BP and Amoco came to tackling this process, planning was first on the agenda, and as a result, incredibly thoroughly done. The two firms started by implementing a pre-merger task force, whose primary goals were to make sure the departments worked together and integrated, as well as recognising where synergies could be achieved (Gomes et al, 2011). The ultimate result was to be the merger of all systems within the organisations, such as HR, accounting etc, effectively to 'marry' the two firms both legally and culturally (Salama, 2011), therefore there was a strong focus on the cultures of the two organisations, and how synergies could be achieved without disrupting or causing cultural conflict.

Although BP was the primary shareholder in the relationship, the two sides intended to work together in the integration process. Furthermore, they recognised that job roles are key to people's organisational identities, and that conflict could arise if due diligence was not paid to these deep rooted feelings (Salama, 2011). Therefore, it was important to make opportunities for employees from both sides, giving them each opportunities to become a part of the new BP Amoco. What made this even more crucial is the fact that at least 6,000 employees would lose their jobs from the outset, in order to cut costs by avoiding overlap between the two firms (Moore, 1998), so reallocating them where possible was also necessary.

Having said that, most of the key decision making was done solely by BP, rather than Amoco. Having learned from past mistakes that passivity leads to ambiguity, chief executive of BP John Browne was decisive in his structuring and cultural realignment of the new firm. Within 2.5 months of closing the deal all management positions were filled and 10,000 employees had been notified that they were made redundant (Vestring, King, Rouse & Critchlow, 2003). He emphasised that there had to be clarity in the process, and that people had to have the answers to their questions, even if they didn't like them. '*You can't just let these things work themselves out*,' he stated on the matter (Vestring et al, 2003).

This sentiment was carried through to the post-merger phase, as another team was assigned not only to overview the process, but also to interact with the employees and conduct surveys for the first 18 months, allowing management to gain their feedback on areas of improvement (Gomes et al, 2011). It particularly let them keep track of how the cultural integration and the effectiveness of their communication, which allowed them to make the necessary adjustments before major issues arose (Salama, 2011). Their aim was not only to ensure the integration of systems, but also the creation of a new corporate culture. This was to be done by merging the

best characteristics from each firm, which involved creating new benefits training and recruitment activities and so on (Salama, 2011).

In order to do this, a number of meetings were held in which the 500 top managers came together to learn about the philosophy of each organisation and encourage the employees to mix with each other (Salama et al, 2003). Not only did this help initially to break the ice, but it also allowed BP Amoco to make clear to the managers what was expected, what the new firm would look like and how they would do things.

Cultural differences, conflict and how it was overcome

BP's integration process was extremely thorough, and although tensions and cultural conflict did arise within the new BP Amoco firm, they were able to overcome it through due process and decisive decision making. The conflict appears to have arisen primarily from organisational culture differences, although national culture will also be discussed as there were certainly differences between the two countries.

National culture perspective

Figure 4.4: National culture differences between the United Kingdom and the United States
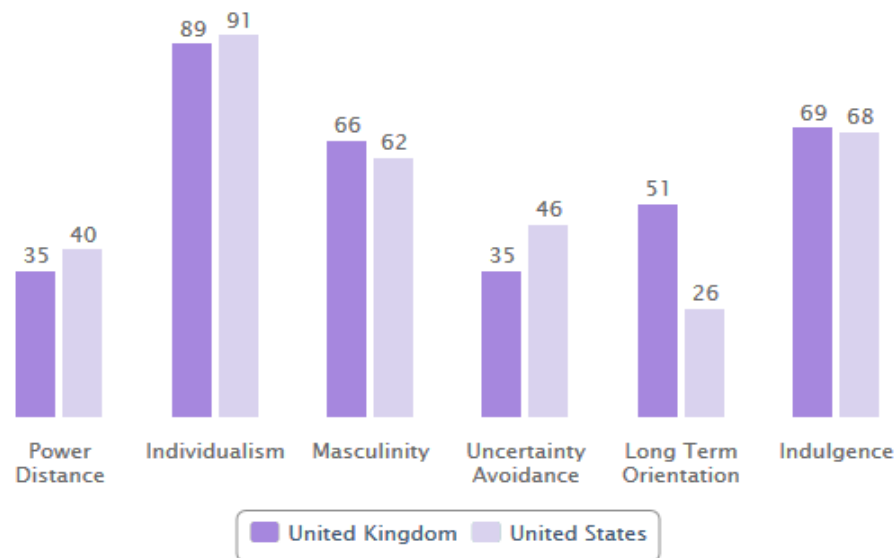
Source: Hofstede (n.d.)

As can be seen in Figure 4.4, the national cultures of the United Kingdom and United States are extremely similar, with the only significant differences being between the uncertainty

avoidance and the long term orientations of the two firms. The two countries score extremely closely on the other four dimensions, with some being almost identical.

When looking at the national culture comparison for uncertainty avoidance, it would suggest that of the two firms BP would be prone to taking risks and innovating, while Amoco would be risk averse and more stringent when it came to rules and regulations (Hofstede, n.d.). This is fairly accurate to what the reality was, with BP being, '*Very aggressive, very upbeat, very high on personality, very vivacious*', in comparison to Amoco who were much more conservative and attentive to detail (Gaines, 1998). This left some at Amoco feeling that BP was overpowering and that they were being pushed to the side.

The long term orientation scores also seem to reflect the reality of the situation between the two firms during the merger process. The US being more keen on following traditions, and Amoco fitted this description, as they tended to stick to their tried and tested ways of doing things (Gaines, 1998). BP on the other hand, would according to Hofstede, be somewhere in the middle, neither too traditional, not pragmatic (Hofstede, n.d.). However, BP was primarily results oriented and fixated on generating returns for shareholders - getting rid of underperforming assets if necessary along the way. According to Hofstede (n.d.) this desire for results, particularly quick results, should have been shared by Amoco, although this did not seem to be the case. This 'shedding' of certain assets certainly caused controversy within the two organisations, particularly because it was felt that BP assets and employees were being treated favourably (Gomes et al, 2011). This point will be discussed in more detail below.

Organisational culture perspective

The organisational cultures of both BP and Amoco were virtually the antithesis of one another. At BP the working pace was incredibly fast, and those who took initiative to get the needed results were celebrated, even if it meant sometimes taking extra risks to achieve them (Gaines, 1998). On the other hand, Amoco's culture was much slower paced, conservative and modest - they want to get the job done, and done well, but would not tend to take big risks for big rewards like BP would (Gaines, 1998). If both cultures had managed to meet in the middle, then the outcome would probably have been the perfect organisational culture model; however, this was not the case.

Both BP and Amoco each had assets that could fill in most of each other's strategic gaps. In this respect they were complementary to one another and there were many overlapping parts of their business (Moore, 1998). In contrast to what one might think then, this does not necessarily mean that all is smooth sailing when it comes to integration, and particularly

cultural integration, in fact the opposite is often true as industry expert David Lanciault explains, '*Complementary operations build more common ground for conflict in making business decisions - how you actually work, the criteria you use to make decisions and so on. You have two organizations that have evolved over a long period of time that have very distinct ways of doing these things.*' (Gaines, 1998). The two firms both had very distinct and strong organisational cultures, and so it is only natural that when it came to merging the two together conflicts arose, particularly by way of resistance to change.

One of the main reasons for the conflicts between the two sides relate to the overlapping of assets. During the merger, BP used a system of best practice in order to choose which operations and habits would be taken from each firm. For example, the performance management system was taken from BP, while the process of allocating capital was found to be more efficient in Amoco, so that was used after the merger for both firms (Salama et al, 2003). However, issues arose when there seemed to be a lack of equality between the two firms when it came to choosing these best practices and people for the job. Most of the new executive slots were filled by BP employees, and most of the cultural practices and ways of doing things also originated from BP. Just as they had done before the merger, BP was focused on purely what was best for the shareholder and based their decisions on that (Vestring et al, 2003). This was exacerbated by the fact that the headquarters for BP Amoco would only be in London, rather than also having a corporate base in the US.

There was even a running joke at the time, 'How do you pronounce BP Amoco? Answer: BP, the Amoco is silent.' (Vestring et al, 2003). However, the situation was far from funny, particularly when considering 10,000 workers worldwide were let go after the merger and several senior figures from Amoco's side resigned during this process (Gomes et al, 2011). Employees of Amoco felt shunted and were naturally upset. However, BP was unapologetic, with the CEO stating, '*I learned you have to have clarity with an acquisition. You can't let these things just work themselves out.*' (Vestring et al, 2003). This was part of the reason why all chosen managers were brought together to learn about the philosophies of the new firm and what would be expected. It was made clear some people would be made redundant and it was made clear that working practices would be changing. Despite perhaps being harsh, this strategy did seem to work - as the post-merger integration progressed, the surveys allowed grievances to be aired and put to rest and lines of communication were kept open.

Why was the merger successful?

If we look back to section 2.7.4, we can see that some of the main recommendations for a successful M&A (Kansala & Chandani, 2014) are processes that BP Amoco went through following their merger. For example, BP and Amoco had a clear and thought out integration plan, one of the most thorough that is documented in fact, a clear vision of what the organisation would become and they kept employees involved at all times in order to overcome any cultural differences they had previously recognised.

What appears to have been key throughout the merger process of the two firms was the clarity of any planned action, as well as a constant cycle of communication that linked employees to management and vice versa. Although BP virtually absorbed the culture of Amoco and its processes as well, they were transparent in doing so. While this initially ruffled feathers, people knew where they stood. This is in stark contrast with what happened during the DaimlerChrysler case, where the merger of equals didn't seem quite right, turned out to be a takeover, and left most employees feeling betrayed. Furthermore, the lines of two-way communication were open throughout the merger process, allowing for improvements to be made and grievances to be heard. Communication and clarity are some of the most important factors when it comes to M&A success and integration success (Cameron & Green, 2009).

Conclusion

BP Amoco went from strength to strength following the merger and its stock prices rose by 41% in the following year, from 76.88 just before the merger was announced in August 1998, to 108.56 the following year in September (Yahoo! Finance, n.d.). Combined with a rising price in oil, profits soared and allowed BP Amoco to acquire two more firms; Atlantic Richfield Company and Burmah Castrol less than two years later in 2000 (Brierley, 1999). In fact, without the successful M&As during this period, and the financial boost it gave them, BP may not have survived the health and safety controversy they faced later in the 21st century, such as the Texas oil refinery explosion in 2005, which brought with it a lot of negative publicity.

4.2.2 Deutsche Bank Bankers Trust

Introduction

The second successful case is the acquisition of Bankers Trust (BT) by Deutsche Bank (DB). The deal went through in 1999, in which Deutsche Bank agreed to buy Bankers Trust for the sum of $10.1 billion (Williams, 1998). With a then combined worth of $840 billion (Beckett, Murray & Rhoads, 1998), the acquisition propelled Deutsche Bank into a global contender, able to compete with other mega-banks and even surpass them in areas such as leveraged finance (Beckett et al, 1998) The way Deutsche Bank and Bankers Trust handled the acquisition is has been praised as '*the most successful integration in the industry*' (Salama et al, 2003), with both sides joining forces to become a superpower, yet with minimal cultural and integration issues. In this case, we will investigate which practices enabled them to achieve this.

History of the two companies

Founded in Berlin in 1870, and now based in Frankfurt, Deutsche Bank specialised in foreign trade from the outset (Gall, 1995). Having survived years of turmoil in Germany during the two World Wars and various depressions, the bank was split into several regional banks following World War II, and did not reunite until 1957 under the new name Deutsche Bank AG (Historical Institute of Deutsche Bank (n.d.). In the period that followed, the success and international presence of the bank grew, culminating in a string of high profile acquisitions in 1980s and 1990s, including Morgan Grenfell in 1989, McLean McCarthy Ltd in 1998, Banca Popolare di Lecco and Banco de Madrid in Spain in 1993 and Bankers Trust corporation in 1999 (Deutsche Bank AG, n.d.). By this point, Deutsche Bank AG was well on its way to achieving its goal of becoming a global investment powerhouse, rather than just a retail bank (Rugman, 2005).

Bankers Trust had a rather more troubled recent history leading up to its acquisition by Deutsche Bank AG. Following its foundation in 1903 in the United States, Bankers Trust quickly grew through acquisitions, taking over 9 other banks in the space of four years between 1926 and 1930 (Dorman & Charlton, 2013). Despite being a major player in the U.S. banking industry, Bankers Trust struggled through economic depression, although it managed to claw its way back into success and eventually gave up the retail side of banking. Bankers Trust faced several major lawsuit cases in the 1990s, which again left it floundering. They managed to acquire another U.S. investment bank, Alex Brown and Sons in 1997; however, this was overshadowed by a major fraud investigation which found several managers guilty of effectively stealing from the government (Bankers Trust, n.d.). This left the company heavily

tarnished, meaning that the acquisition by Deutsche Bank couldn't have come at a better time (Dorman & Charlton, 2013).

The merger

<u>Motives</u>
For Deutsche Bank AG, the motives behind the merge were fairly straightforward. Deutsche Bank AG was already a successful European bank, and it also had a presence in Asia. However, the company's American presence was severely lacking and needed to be remedied, given that the US was a dominant market player when it came to banking (Williams, 1998). Deutsche Bank AG wanted to transform from a European bank into a Global powerhouse in its own right, and saw Bankers Trust as a way of getting a firmer foothold in the coveted US (Millmore, Lewis, Saunders, Thornhill & Morrow, 2007).

In addition to this, Deutsche Bank wanted to become more involved with investment banking, an area where it had had less success (O'Brien, 1999). Bankers Trust certainly had the necessary experience in that department and would give them an already experienced investment branch; Bankers Trust already had experience managing $2.3 trillion in various pension and other investment funds (Williams, 1998). Bankers Trust had recently acquired Alex Brown, a historic U.S. investment bank, which would provide another level of expertise within the new firm (Salama et al, 2003). Deutsche Bank had previously been investigating other large American banks, for example Morgan Stanley and Goldman Sachs, however they were not interested in making a deal at the time like Bankers Trust was (Williams, 1998).

Bankers Trust on the other hand, seemed to want to escape its reputation and the controversy surrounding it at the time. Previously one of the most powerful and aggressive banks in the world, Bankers Trust had had a troubled history in the years leading up to the acquisition, with a number of high profile lawsuits brought against them amounting to hundreds of millions of dollars (Holland & Himelstein, 1995). Bankers Trust had made considerable losses for several of its clients, including high profile companies such as Procter & Gamble, and when investigated it was discovered that Bankers Trust had been intentionally deceitful about the risks associated with speculative derivative investments (Tew, 2004). This damaged reputation was further dragged through the mud, when it was later found not only to be falsifying bank records to enhance its financial performance, but that several of its executives had been illegally pocketing money that effectively belonged to the government (Martinson, 1999). Combined with huge recent losses in relation to instability in Russia (Russia Burns Bankers Trust, 1998), Bankers Trust was desperate for the stability that Deutsche Bank could offer.

<u>The deal</u>

In November 1998 Deutsche Bank announced that it would be acquiring Bankers Trust, a U.S firm, and the deal itself took place in 1999, costing Deutsche Bank $10.1 billion (Andrews, 1998). The price Deutsche Bank paid was much higher than the actual book value of Bankers Trust, which was in reality only worth around $5.7 billion (Andrews, 1998). However, Deutsche Bank planned to offset this via annual goodwill payments until the amount was returned (Deutsche Bank approves deal, 1998) and had the cash available at hand to make the deal it so badly wanted right then and there (Wasserstein, 2009). After the deal, Bankers trust would be absorbed by Deutsche Bank and effectively cease to exist as a separate entity, although the brand name would remain for their private banking division (O'Brien, 1999). It is also important to note that prior to the deal taking place, U.S. regulators had agreed to grant immunity to Deutsche Bank from any further legal claims that could otherwise be brought against them in regards to Bankers Trust's past (O'Brien, 1999).

Integration efforts

As with BP had done with Amoco, Deutsche Bank recognised the need to act quickly, decisively and transparently when it came to integrating Bankers Trust (Vestring et al, 2003). Furthermore, having open lines of communication and being clear about responsibilities were also key in their general strategy, with Deutsche Bank CEO of American operations John Ross saying, '*there was no confusion about who was running what, who was responsible for what, and what was the game-plan and strategy going forward*' (Useem, 2000).

Some of the actions most crucial to the success of the integration were taken during the planning phase, where extensive due diligence was conducted in order to recognise and plan for any issues, particularly of a cultural nature that may arise (Salama et al, 2003). Crucially, a cultural assessment exercise was conducted in this phase in order to measure the cultures of each firm and uncover the perceptions each side had about one another (Millmore et al, 2007). This exercise revealed several issues over which future employees were likely to clash - which will be discussed in more details below - and therefore Deutsche Bank were already able to draw up a game plan for these before the merger took place (Holbeche, 2007). The fact that this was done then allowed them to create a tailored programme for post-merger integration, as they saw what the main concerns were among the employees (Holbeche, 2007).

There were six months between the official acquisition date and the handover of control to Bankers Trust to Deutsche Bank, in which most of the post-merger integration was already taking place (Useem, 2000) . In terms of this post-merger integration process, Deutsche Bank's chairman Rolf Breuer stated, '*There will be no autonomy*' for Bankers Trust (Grubb & Lamb, 2001:15), meaning that Deutsche Bank would determine all terms during the process. They were transparent about this fact, so Bankers Trust employees knew what the terms of the acquisition were. They did this in an attempt to avoid potential cultural clashes they had experience in their previous acquisition of the Morgan Grenfell bank (Kaynak, Mockler & Dologite, 2014).

Furthermore, an 'Integration Steering Team' made up of executives was established by Deutsche Bank in order to assess which areas of Bankers Trust could be integrated in the Deutsche Bank systems and which could not (Millmore et al, 2007). In the case that they could be integrated, that would be done, while if an department of Bankers Trust was stronger than that of Deutsche Bank, they made no qualms about replacing their own people either (Salama et al, 2003). However, Deutsche Bank also made it clear that they would not take on people unnecessarily. Thus, similarly to BP and Amoco, they really wanted to take the best departments and practices of each firm and combine them (Holbeche, 2007). They also implemented redundancy packages for those being let go, and incentives for new Bankers Trust staff to commit to Deutsche Bank to prevent them from going to work for the competition (Millmore et al, 2007). Finally, an implementation review committee was established to ensure that everything planned for the integration was happening and that goals were reached in terms of created synergies (Deutsche Bank, 1999).

***Cultural differences, conflict and how it was overcome***

Clear cultural differences did exist between both the two countries and firms involved in this acquisition. However, the proactive actions of the integration team appear to have stemmed the conflict before it could grow so much as to damage Deutsche Bank after the merger. The specific actions taken to tackle each cultural issue that arose will also be discussed.

<u>National culture perspective</u>

Figure 4.5: National culture differences between Germany and the United States
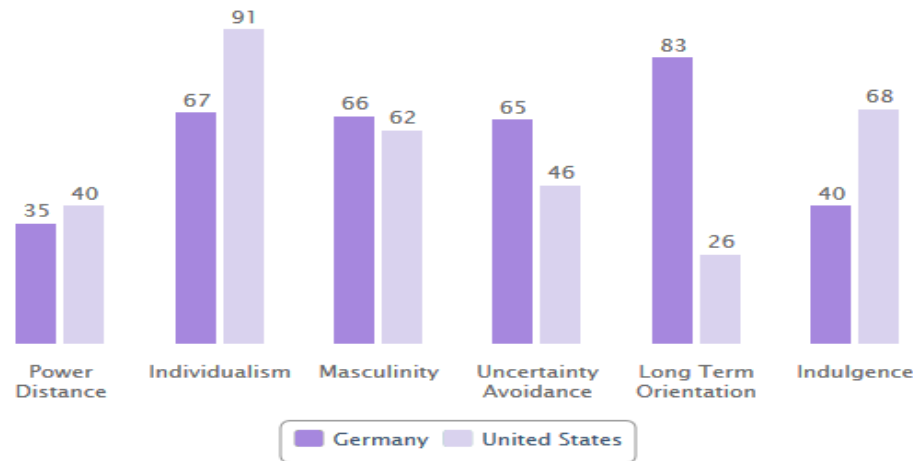
Source: Hofstede (n.d.)

The national culture differences between the two firms had the potential for the same cultural clash as had occurred in the DaimlerChrysler case, considering that was also a situation in which a German and American company tried to become one. However, this conflict failed to materialise, primarily due to the proactive cultural assessment exercise which was conducted before the acquisition took place (Holbeche, 2007). This exercise brought up several national culture characteristics that were of concern to each side, and would have likely developed into a cultural clash had they not been resolved. Furthermore, Deutsche Bank had acquired another big international bank, Morgan Grenfell a decade previously, with which too much autonomy and a slow, 'hands off' integration approach led to huge culture clashes (Peterson & Silverman, 1998). Deutsche seemingly learned from this experience, and as mentioned, were much more proactive in their approach to tackling culture issues with Bankers Trust.

Reflective of its high uncertainty avoidance levels, Deutsche Bank was a risk averse firm, which specialised primarily in retail banking at that point, while Bankers Trust was high risk by nature, because much of its focus on derivatives as a way of making money at that point (Salama et al, 2003). It came to light during the cultural assessment that Bankers Trust was concerned that Deutsche Bank would be too afraid to change, and too bureaucratic to succeed in the riskier investment side of banking (Salama, 2011). The response at Deutsche Bank was very pragmatic and reflective of their long term oriented national culture, *'This cultural awareness helped us to start challenging our own work values and embracing new ones'* (Salama, 2011). They adapted to the situation, and were prepared to adjust in order to reach the goal of expansion into the investments side of banking.

<u>Organisational culture perspective</u>

One of the key ways in which the organisational cultures differed from each other were that Deutsche Bank was very process oriented and risk averse, while Bankers Trust was much more results oriented - some employees even went so far as to commit fraud to portray better results than was the reality (Martinson, 1999). Furthermore, Deutsche Bank was known to keep a tighter control of employees and what went on within the organisation, as opposed to Bankers Trust who were obviously much less strict. These organisational culture traits are also related to what we can see in the national culture of the two countries and reflect them. Both cultures were at opposite ends of the spectrum, and although Bankers Trust's culture of laxity and risk taking had gotten it into trouble in the past, Deutsche Bank would have to loosen up its strict culture in order to be able to compete against U.S. banking culture which was more prone to risk taking behaviours (Peterson & Silverman, 1998).

The cultural assessment that was conducted identified several other key cultural issues that would have to be tackled before control was fully handed over to Deutsche Bank. It revealed that Deutsche Bank employees doubted the usefulness of acquiring Bankers Trust and thought it would bring the company down rather than to help them reach new heights, particularly when it came to reputation (Salama et al, 2003). As mentioned when discussing national culture, the assessment also found that Bankers Trust was afraid of the stereotypical bureaucracy and hierarchy that they associated with German firms - they thought it would slow them down and hamper their style of doing business (Millmore et al, 2007). Many of the opinions were mistaken about the aims of Deutsche Bank, and what the culture would be like after the merger. In order to change opinions, Deutsche bank reinforced the open lines of communication; they restated their expectations and future plans for the acquired firm and announced they would also be working on bettering their own cultural issues (Millmore et al, 2007).

Furthermore, the assessment revealed that there was already a lot of cultural conflict happening in Bankers Trust alone, which stemmed from their previous acquisition of investment bank Alex Brown. Alex Brown employees felt that they had lost their identity within Bankers Trust. They were essentially swallowed up by the bigger firm and forgotten about; when in reality they were one of the key assets that appealed to Deutsche Bank (Millmore et al, 2007). Thus, reaching out to Alex Brown employees was critical to keeping them on board after the merger. To do this, Deutsche Bank chose not only to change the Bankers Trust brand (primarily because of recent controversy), but to include the Alex Brown brand - in the US, they would create 'The Deutsche Bank - Alex Brown Investment Bank' (Salama et al, 2003).

Why was the acquisition successful?

Deutsche bank went through a very methodical process while planning and integrating the two companies, which definitely contributed to its success. As mentioned in section 2.7.4, one of the most important things an M&A can do to contribute to its success is planning (Kansala & Chandani, 2014) - this is something that Deutsche Bank did to the point where virtually everything was decided and kinks ironed out before control was even handed over to them.

Furthermore, they demonstrated an understanding for cultural differences, and acting proactively to prevent conflict before it occurred, or to resolve it quickly after it manifested, meaning that it was never able to snowball out of control as it did in the first two cases. Something this case has in common with the BP Amoco case, is the considerable speed at which the integration process was completed. As was mentioned in the case, most of the integration actually happened in the 6 months before control was officially handed over to Deutsche Bank, which meant that when this happened most of the issues were already resolved. In addition to this, Deutsche Bank maintained a clear vision throughout each phase of the acquisition and when it was discovered that some employees had misinterpreted it, it was reiterated to make sure everyone understood. To keep everything running smoothly lines of communication were kept open, as well as there being a clear line of responsibility, which made sure people were accountable and knew who to report to.

Conclusion

The acquisition of Bankers Trust gave Deutsche Bank the platform it needed to become the global investment bank that it is today. Not only did it open up the world of investment banking to DB, but it gained them a crucial foothold in the competitive U.S. market, one which they were able to cement with the acquisition of Scudder Investments in 2001 (Kapner & Sorkin, 2001). In the decade that followed the acquisition, Deutsche Bank went from strength to strength financially, right up until the financial crisis, from which it has since struggling to recover from for unrelated reasons.

4.3 Failed Domestic M&As

4.3.1 Sprint Corporation merges with Nextel Communications

Introduction

The first domestic M&A case is that of Sprint and Nextel communications. Sprint merged with Nextel in 2005 for $36 billion in a bid to keep pace with increasing competition. The organisational culture of the two firms were distinctly different from the outset and this lead to disagreements from everything from advertising strategy to technologies (Hart, 2007), which led to each firm having a distrust and feeling hampered by the other, resulting in many Nextel employees leaving. From a financial standpoint, the merger was a disaster, with $29.7 billion of the $36 billion paid for Nextel being written off (Malik, 2008). Ultimately, in 2012 Sprint announced it would be letting go of Nextel, concluding the chapter on this M&A story.

History of the two companies

Although not named Sprint Corporation until 1986, the roots of the company began as far back as 1899, when the Brown Telephone Company was founded (Sprint Company History, n.d.). After several consolidations and name changes, the Sprint brand name was launched. Sprint Corporation is a telecommunications firm that focuses on two different areas of the market; their fibre optic network and their personal communications services (Sprint Company History, n.d.). The firm has made several breakthroughs in technology in recent decades, such as being the first company to use 100% fiber optic cables for their network in the US, as well as being the first to provide transatlantic fiber optic phone calls (Sprint Company History, n.d.). In the late 1990s and early 2000s, Sprint accelerated its growth and innovation by forming strategic alliances with Deutsche Telekom, Earthlink, Dell Computer and America Online Inc. They also attempted to merge with Worldcom, however it fell through due to federal intervention - the later merger with Nextel Corporation was their second attempt.

Nextel Corporation was a comparatively young firm, having only been founded in 1987 under the name Fleet Call Inc. with the aim of acquiring and using existing radio bands as a basis for their wireless telecommunications (Mandayam, n.d.). The firm was quickly able to establish itself as a nationwide contender and after it was renamed to Nextel Corporation in 1993 its success in the digital and wireless communications segment continued. As with Sprint, Nextel also had several technological breakthroughs throughout the 1990s, such as iDEN technology for Motorola (Sprint Company History, n.d.). They also had previous experience with M&As,

having merged with Dial Call and OneComm in the mid-1990s as well as buying up all of Motorola's radio licenses in a bid for continued growth (Nextel Company History, 2005). Over the next decade up until the merger between Nextel and Sprint, subscription numbers boomed and Nextel was holding its own while competing against much larger companies (Mandayam, n.d.).

The merger

<u>Motives</u>

As we have also seen in several of the other cases, one of the major reasons for the Sprint - Nextel merger was the desire to combine forces to compete with rivals in an increasingly competitive environment (Crockett & Yang, 2004). Both Cingular and Verizon were larger firms by a decent margin, and were also very innovative - this merger would put Sprint Nextel firmly in third place and in a better position to compete, particularly in the area of wireless communications (Crockett & Yang, 2004). After the merger, the top 3 firms (of which Sprint Nextel would be 3rd) would control around 75% of wireless traffic (Simon, 2004).

In addition to this, the merger would provide considerable synergies and savings for both firms. Sprint would gain access to Nextel's rapidly growing consumer base, which at the time already numbered 15.3 million subscribers, as well as helping Nextel to avoid expensive upgrades of its own network, which would save them up to $12 billion alone (Simon, 2004). This was all the more important due to the fact that the costs of wireless phone calls were dropping, resulting in profit margins being squeezed. Therefore, these cost savings were crucial in not only maintaining but improving the position of the firms for the future (Simon, 2004).

<u>The deal</u>

The '*merger of equals*' between Sprint Corporation and Nextel Communications was announced in December 2004, and took place in August 2005 for a value of $35 billion, forming the newly named 'Sprint Nextel' firm (White, Bimbaum & Barbash, 2004). Before the merger, the two firms had a combined equity value of roughly $70 billion, as well as serving 262 million people using their networks and having approximately 35 million direct subscribers (Nextel Press Release, 2004) across personal, business and governmental segments.

The merger was said to be between two equals, however Sprint gained 50.1% of the shares, making it technically an acquisition. Furthermore, Nextel shares were converted into Sprint Nextel shares, at a ratio of 1.28:1, while Sprint shares would remain the same (Sprint, Nextel in $36B merger, 2004). The new firm would be headed by Sprint's previous chairmen Gary

Forsee, while the new chairman would be former Nextel CEO Timothy Donahue. The new board would be divided equally between the firms, with each having 6 board members for a total of 12 (Simon, 2004). In addition to this, there would be two headquarters, one in Kansas, which is where Sprint had previously had headquarters and the executive headquarters in Virginia, which had previously belonged to Nextel (Simon, 2004).

Integration efforts

From the outset, Sprint recognised the importance of cultural integration between the two firms, particularly because the organisational culture between them was so evidently different. Organising the integration process was the responsibility of the new HR department, who were charged with finding and re-implementing the best practices from both organisations (Cummings & Worley, 2009). They also quickly realised that clarity and communication were key during the integration process; organising tours of each headquarter as well as webcast shows from the new top management and newsletters. This was done in order to keep employees informed and comfortable about the process and so that they understood how it would affect them (Cummings & Worley, 2009), as well as allowing them to ask questions and receive informed answers. Furthermore, those that had to be made redundant - around 5,000 out of a total of 65,000 employees were handled with care and respect, meaning there was generally not any resentment about it. These aspects of the integration process were handled fairly well by the two firms, but others definitely were not.

When it came to integrating the individual identities of the two firms, the process was less well thought out. For example, each firm was still marketed separately rather than together; for example, the new logo said '*Sprint*' and then '*together with Nextel*' in smaller letters, while Nextel's was also '*Nextel: with Sprint*' (Suliman, 2015). While keeping two brands separate is typically not an issue, when a merger is dubbed to be a '*merger of equals*' and it is the intention that the two brands merge, when mixed signals such as this are sent it undermines the process and the employees often end up feeling cheated. This is what happened in this case; it caused members of the two firms to feel like they did not belong in the new firm. This was particularly true of Nextel, whose employees found it difficult to have to seek approval from their Sprint counterparts and did not fully trust them (Suliman, 2015).

Furthermore, the headquarters of the two firms were not integrated which exacerbated this issue; those of Sprint were located in Kansas, while Nextel's headquarters were in Virginia.

Due to worries about having to relocate too many employees and them being unhappy about it, the headquarters were kept apart and in their original locations - ultimately only 78 employees ended up moving (Cummings & Worley, 2009). So, despite the fact that those at a managerial level had briefly seen the other headquarters, being separate made it difficult to truly integrate and coordinate any activity effectively - in order to have a regular meeting executives were forced to fly back and forth daily (Hart, 2007). For regular employees on the other hand, it was the other extreme end of the spectrum - almost as if the two firms had never merged.

These factors contribute to a lack of identification with the new firm, which is also something that came up in the post-merger surveys conducted by the HR department. Although ratings were high for both management quality and employee engagement, many employees still felt disconnected from the identity of the new firm (Cummings & Worley, 2009). This manifested itself in the fact that these employees were not committed to the new firm, and had average scores at best when it came to employees wanting to stay in the new firm (Cummings & Worley, 2009). When examined in this regard, it seems as if integration attempts were only moderately successful at best.

Cultural differences, conflict and what went wrong

As this and the following 3 cases are all domestic M&As, only organisational culture and the resulting conflicts can be discussed, as the national culture between the two firms is the same and therefore will not influence differences between the firms.

The most prominent organisational culture difference was related to the governance structure of the firm - Sprint was a more traditional, bureaucratic firm, while the culture of Nextel was much more young and entrepreneurial (Ali, 2007). This lead to feelings of resentment, particularly from Nextel employees towards Sprint, who felt that their go-get-em style was being smothered by Sprint, who sometimes acted more like a parent than a partner. A classic example that is used to demonstrate these differences is a presentation given by the CEOs of the two firms:

> *Chief executive Tim Donahue revved up the crowd with a pep-rally-style speech. Donahue, dressed in a sweater vest and khakis, drew cheers by chanting, "Let's go stick it to Verizon!"*
>
> *He then introduced a special guest -- Gary Forsee, Sprint's chief executive and the architect of the merger, who had flown in from Sprint's Kansas City headquarters. Forsee walked onto the stage wearing a suit and proceeded to outline his expectations for the combined company in a PowerPoint presentation. The room fell silent.*
>
> (Hart, 2007)

The tension was made even worse by the fact that Nextel employees, even at a managerial level often had to seek approval for their actions from their superiors at Nextel, meaning miscommunication, poor execution and delays in decision making were rampant (Dumon, n.d.). While this reflected on Sprint's more process oriented way of working, Nextel, who were more results oriented found this frustrating and it often led to arguments in the board room (Shriar, 2015). Furthermore, it served to create a lack of trust between the two firms, who could neither rely on each other to act alone, nor coordinate joint actions properly.

As already mentioned, the fact that the headquarters were separated not only hampered integration but also caused cultural conflict. Worth mentioning is the fact that the Sprint headquarters were newly build, in large landscaped grounds - something which spurred jokes about overspending from Nextel employees (Hart, 2007). This, along with the biased marketing strategy only served to reinforce suspicions that Sprint was in fact the more dominant partner in this merger of equals.

Another key difference between the firms was their philosophy when it came to how customer oriented they were; Nextel was pragmatic/customer oriented and tended to have the flexibility to adapt their service or perks to suit the particular customer (Phillips, Phillips & Zuniga, 2013). One of the key points of discussion at Nextel meetings prior to the merger had always been churn, i.e. the turnover of customers, and they used it as a measurement of customer service quality (Ante, 2008). On the other hand, Sprint was normative/not customer focused at all, playing it very by the book regardless of who the customer was (Christopher, 2012). Nextel's focus on the customer ended after the merger, while other things such as synergies were focussed on. Furthermore, employees were pressured to limit the time spent helping customers and to start focussing on sales, even if this worsened quality (Ante, 2008).

If the best practice approach to integration had truly been successful, then this would have been reflected in the fact that service from Sprint would improve - however service from Nextel

simply decreased in quality instead. This created a bit of a domino effect, once service worsened, customers started to drop off, and where Nextel had previously been rapidly expanding in terms of subscription numbers, they were now dropping off - with 2.4% of the customer base leaving per month by 2006 (Shriar, 2015). This whole situation also led to conflict within the organisation - each side played the blame game, with Nextel blaming Sprints attitude towards customers and Sprint employees blaming Nextel's network, which was worse than initially thought (Ali, 2007).

All together, these issues meant that many of the new firm's top executives, particularly those that had come from Nextel, began to leave soon after the merger had taken place, citing irreconcilable cultural differences as the primary reason (Phillips et al, 2013). It essentially created a downward spiral; conflict and disagreement, poor decisions which caused customers to leave as well as executives.

Were there other reasons for failure?

On top of everything else, the fact that the key technologies from each firm were completely different also did not help the situation. The core of Nextel's technology was phones that were run using a type of walkie talkie technology, where one would push a button to transmit, while Sprint operated a completely different wireless system - the two systems were completely incompatible (Daniels, 2012). The attempts at combining the technology of the two firms was a disaster and as Sprint added customers to the Nextel networks, the reduced bandwidth caused poorer performances for the other customers, causing calls to drop out (Sharma, 2006). Their proposed solution was to gradually transfer all customers over to Sprint's network, but this would take much longer than initially expected - meanwhile customers were leaving in droves and profits dropped (Sharma, 2006).

Another reason why the merger seems to have failed, which is also related to the lack of technological integration, is the fact that realised synergies were much lower than what had been predicted. Despite closing 168 retail stores and making a third of its directors redundant, Sprint only managed to achieve $1 billion worth of synergies by the end of 2006, out of a total expected $14.5 billion in savings (Sharma, 2006) - by this point it had been projected to be double this amount (Shriar, 2015).

Conclusion

By 2008, Sprint Nextel had already been forced to write down almost $30 billion since the merger had occurred and the two firms together ended up being worth less than one of them alone pre-merger (Moore, 2008). Together with a customer churn that had reached millions per year by 2008, despite a growing market, the merger was dubbed a 'deal from hell' (Moore, 2008) and it never recovered from this sudden downturn. In the following years, Sprint stated several times that they intended to wind down Nextel's activity and eventually phase it out - this ultimately happened in June 2013 when the Nextel network was finally shut down (Goldman, 2012).

4.3.2 AOL Inc. merges with Time Warner

Introduction

The second domestic failure case is the merger of Time Warner and AOL Inc. The merger was announced in January 2000 and officially took place exactly one year later in January 2001 valued at around $166 billion (Gaughan, 2005). What started off according to AOL co-founder Case '*a historic moment in which new media has truly come of age*' (Arango, 2010) quickly degraded into the '*biggest mistake in corporate history*' according to Jeff Bewkes the chief executive of Time Warner (Barnett & Andrews, 2010). An unlucky combination of market troubles and a major organisational culture clash were the main contributors to the downfall of the merger, which resulted in the eventual spin off of AOL Inc. in 2009 to become an independent company again.

History of the two companies

Time Warner is itself the child of a merger between Time Inc. - a magazine and eventual multi-platform entertainment firm - and the TV/film production and cable firm Warner Cable. Having both been founded in 1923, the two firms had both grown to become very successful in their respective specialities and came together after mutual success in the TV cable market (Hall, n.d.). The merger occurred in 1989, and allowed Time Warner to target three entertainment markets; networks, film and TV entertainment and publishing, making it one of the world's largest media conglomerates (Time Warner Inc., n.d.). The next challenge for Time Warner to overcome was the increasing importance of the internet.

AOL Inc. on the other hand was a fairly young firm, having only been founded in 1983 as Control Video Corporation, which quickly collapsed and was reformed into Quantum Computer services (Lumb, 2015). The original concept of providing an online bulletin board quickly grew to over 100,000 subscribers by 1991, at which point it was renamed America Online and began to introduce other online services, such as its own email address and providing internet access for a fee (Rothman, 2015). In the following years their subscriber base grew rapidly, from 1 million in 1994 to 10 million in 1997 (America Online and Time Warner Timeline, n.d.) and by 2000 AOL was the largest internet provider in the US.

The merger

Motives

The primary motivation of the deal appears to have been the desire to benefit from the technological and operational synergies it was expected to bring (Sanni, 2014). The two firms both had elements of their strategy that were weak and others that were strong, and it appeared that they would fill in each other's strategic gaps without too much overlap - creating the 2 + 2 = 5 effect that was discussed in the literature review (Gaughan, 2002). Time Warner was already a goliath in the media and entertainment world and had cable TV networks across the country; however, it lacked the capability to digitise its content as fast as the market demand for it was growing (Sanni, 2014). AOL Inc. on the other hand, could use the cable network Time Warner already had to improve and expand its broadband reach, not only to its current subscribers but to a much larger segment (Sanni, 2014).

The deal would give the new firm, AOL Time Warner the power to not only create a vast amount of content across different platforms, but also to distribute it effectively; whether this be through written means, TV, film or online (The reason for the AOL-Time Warner Merger, 2000). Essentially, the goal was to create a new, digitalised media powerhouse that would have the capability to reach the entire nation more efficiently than they would be able to do so alone (Johnson, 2000).

The deal

Time Warner and AOL Inc. announced their plans to merge in January 2000, and the deal was sealed a year later in 2001 at an estimated value of $166 billion (Gaughan, 2005). The new firm would be called AOL Time Warner Inc. Again, the merger was announced by the firms to be one of equals (AOL & Time Warner, 2000), however this would never be reflected in reality due to the fact that AOL shareholders would gain control of 55% of the new firm, while Time Warner shareholders received 45% (AOL & Time Warner, 2000). This lack of equal control is

due to the estimated value of AOL at the time - $164 billion in comparison to Time Warner's $97 billion (Gaughan, 2005) and is despite the fact that Time Warner was actually the partner bringing the by far the most to the merger in terms of revenues, cash flows and assets (Gaughan, 2005).

The leadership and management of the new firm was divided more evenly. The new CEO would be Gerald Levin, former CEO of Time Warner, while AOL CEO Steve Case would become the new firm's Chairman of the board (AOL & Time Warner, 2000). The board of directors would be made up of 16 members, 8 appointed by each firm's own board independently (AOL & Time Warner, 2000). Prior to the merger, AOL was based in Virginia, while Time Warner had its headquarters in New York. Rather than relocate an entire group of employees, it was decided that the new firm would be divided across both locations under the AOL Time Warner banner (Barkham, 2000).

Integration efforts

Before a merger or acquisition ever takes place, careful planning and due diligence should be conducted to ensure that the two firms are suited to each other, and to assess whether they can both contribute to creating extra synergies (Appelbaum et al (2000a). One of the key failings by AOL and Time Warner is the lack of appropriate planning done prior to announcing the merger, which then lead to a lack of understanding about their key differences, and ultimately poor integration efforts.

Essentially, the merger had already been organised as a kind of informal gentlemen's agreement before due diligence was conducted. What would normally take weeks was forced into just three days - Klein aptly likens it to a corporate fire drill (Klein, 2004). Even with all the will in the world, there were going to be important factors missed out with everything crammed into such a short period, especially for a merger of such a large magnitude. As one executive later admitted '*If you do a deal over a weekend, you take shortcuts...In hindsight, we were sloppy*' and another stated '*It was a done deal. We were just going through the motions so there wouldn't be any shareholder lawsuits. I got the feeling that no matter what I uncovered this deal was going to happen*' (Munk, 2009).

As the entire diligence process was so rushed, cultural differences were not accurately diagnosed - instead it was assumed compatibility was certain in part due to several successful, yet informal, conversations between the two CEOs (Timeyin, n.d.). This was reflected in the

integration process, in which culture and potential cultural conflicts took a back seat in comparison to technical or organisational priorities (Weber & Camerer, 2003).

The new HR department was responsible for the management of cultural integration, along with a four-person committee, made up of two executives from each firm (Mannes, 2000). However, many of them took the stance that trying to change a company's culture was not only wrong but would not succeed, with one executive saying '*anything that slides under the barrier of cultural change is doomed to failure...one of the stupidest things you can do is try and tell organisations they can't have their own culture*' (Timeyin, n.d.). It is not realistic to expect two firms to get along with no middle ground, there should have been some kind of collaboration between the two firms in terms of creating a new culture, however, this doesn't appear to have occurred. Furthermore, it is difficult to realise any target synergies if conflict is happening within a firm, which is something AOL Time Warner would come to learn. This will be discussed in depth in the following section.

Cultural differences, conflict and what went wrong

The cultural issues between AOL and Time Warner began before the merger was even announced. During the intense weekend of due diligence that was mentioned above, many members of both firms were already put off by the idea of having to work together and openly squabbled (Munk, 2009). In addition to this, the working styles of the two firms already didn't appear to mesh well - with the working culture of Time Warner being more tightly controlled, they found AOL employees' joking around to be unprofessional and ill mannered (Munk, 2009).

As has been discussed in previous cases, communication and clarity are some of the most important factors when it comes not only to integrating two firms, but preventing cultural clashes. Neither of these were present in AOL Time Warner. In fact, only a few executives and managers were even involved in the diligence and deal making process - many weren't sure what to make of the merger and didn't understand why it was necessary (Kramer, 2009). Those from Time Warner in particular resented the fact that it was essentially being acquired by a much younger, trendier firm, and thought it was a waste of their time. This had two results right from the outset; most employees didn't feel involved and therefore didn't go out of their way to make the merger work, and members of the two firms tended to freeze each other out and not work together (Kramer, 2009).

This lack of any click between the firms continued, as any integration that took place was merely on a superficial level. People within each firm were fundamentally different; with Time

Warner employees being typically older, more traditional and more rigid in the way things were done, while AOL employees were younger and like to think of themselves as breaking the mould and being innovative (Klein, 2004). Chairman Don Logan summed this up nicely, '*there's a huge cultural gap between AOL's twentysomethings and Time Warner's greybeards. When it comes to making deals or launching new ventures, they move at two speeds. It's "Let's do lunch" vs. "Let's skip lunch"... AOL would say we're as entrepreneurial as a couple of 90-year-olds'.* (Yang, 2001).

This led to a direct clash in the way they wanted to work - AOL wanted to move at a faster and more direct pace, but often found their suggestions being shot down by Time Warner, who preferred to work alone and in their own style on projects rather than collaborating (Yang, 2003). This tendency to freeze each other out eventually became reciprocal, and reduced the amount of synergy they were able to achieve:

> *'It became widely known in the content world that it would be easier to get a distribution deal with AOL if you were outside of Time Warner than if you were inside. The great brands of Time Warner, CNN, HBO, Fortune, and Sports Illustrated to name a few, put their content almost anywhere else on the Web rather than on AOL.'*
>
> (Kramer, 2009)

Another prime example of how out of touch the two organisations were with each other is the fact that AOL's software development team created new software which aided customers in downloading and spreading pirated music - despite the fact that Time Warner was one of the world's leading record labels at the time (Lissoni & Pereira, 2005). All of these incidents should have sent major red flags to AOL Time Warner's leadership, and yet, they failed to both recognise the severity of the cultural issues between the two firms and to act on it.

This may have been due to the almost constantly unstable management situation, which was caused by a combination of poor integration, poor attitudes and a lack of compromise. Again, this had begun before the deal was even announced - in fact it was nearly cancelled due to a disagreement over what role AOL CEO Steve Case would play in the new firm. He and Time Warner CEO Gerald Levin had previously agreed he would not be in an executive role, in order to avoid power struggles (Munk, 2009). However, after a heated dispute he ended up gaining an executive role after all. This feuding over positions of power became a theme in the following years; for example, there were 4 different CFOs in the space of only 3 years (Sanni, 2014). Within 3 years of the merger, both Case, Levin and the COO Robert Pittman had resigned (Yang, 2003) - it was in a virtually constant state of upheaval.

Were there other reasons for failure?

Another key reason for the failure of the merger was the inability to produce the expected technological, consumer and operational synergies, which happened for several reasons. Firstly, the expected synergies were likely to have been incorrectly calculated (i.e. artificially elevated) given that AOL was found to have been improperly inflating its advertising revenue prior to the merger (Arango, 2010). In addition to this, the cultural issues described above meant that many of the intended collaborations and projects were either not successful or never even materialized (Sanni, 2014). Furthermore, many of the AOL Time Warner strategies ended up not being followed, resulting in reduced synergy realised.

The final reason as to why expected synergies may not have been achieved is down to the fact that AOL was a relatively young firm, riding on the wave of the booming internet business of the time. When the dot.com bubble burst just a short while after the acquisition, the estimated value of AOL plummeted. This, combined with the economic shockwaves following 9/11, meant that the key areas of AOLs revenue stream, i.e. subscribers and advertisers, were simply not as keen to buy as they used to be (Sanni, 2014).

Conclusion

Time Warner appeared to have regrets about the entire merger after just a few short years. In 2003, they decided to disassociate themselves from the ailing AOL brand and thus dropped it from their name, becoming simply Time Warner once again (Arango, 2010). It's no wonder, as that year they were also forced to post a $99 billion loss due to AOL's implosion - the largest loss ever reported by a company (Sanni, 2014). The two firms finally went their separate ways in 2009, when AOL returned to independence. Although not caused solely by cultural issues, this merger is a prime example of how snowballing cultural problems can quickly take an M&A past the point of no return. It's impossible to know whether the merger would have survived had there not been any market issues at the time, but it seems unlikely given the rate at which things were going downhill even before any signs of economic disaster.

4.4 Successful Domestic M&As

4.4.1 Hewlett Packard acquires Compaq

Introduction

The case of Hewlett Packard (HP) and Compaq is an interesting one; it was widely deemed to be a failure in the years following the deal, however after some growing pains, managed to turn the situation around and come out of it a success story in the longer term. The announcement of a $25 billion acquisition came in September 2001, much to the shock and dismay of the industry (Wright, 2011). The acquisition was poised to make HP the global leader in the technological field, creating a super-firm worth $87 billion and provide considerable savings through synergy creation (Hewlett Packard Press Release, 2001). Initial reactions to the announcement were negative, as was the performance of HP for several years. This eventually culminated in CEO Carly Fiorina being ousted from her position, after which HP was finally able to achieve the initial goals it had in mind before the acquisition (Bloomberg, 2015).

History of the two companies

Bill Hewlett and Dave Packard were freshly graduated electrical engineers from Stanford when they first decided to create their own firm - aptly named Hewlett Packard - in 1938 (Hewlett Packard Press Release, 2001). The ultimate goal of the company was to make technology more accessible for everyone (Hewlett Packard Press Release, 2001. The company had humble beginnings, with the two of them developing products from a rented garage behind Packard's house (Hewlett Packard Press Release, 2001). After a period of gradual growth, HP finally became a publically traded firm in 1957 and had continued success, introducing the first computer in 1966 and the first laser jet printer in 1985 (Burgelman & Meza, 2004). By the late 1990s, HP had become second only to IBM in the number of computers it was producing, and net revenues were up to $42 billion per year (Compaq, n.d.).

Compaq was founded in 1982 by three former employees of Texas Instruments Inc.; Joseph Canion, James Harris and William Murto (Compaq, n.d.). Their goal, which they had already achieved by 1983, was to reverse engineer IBM technology in order to create a computer that was compatible with it (Compaq Computer Corporation, n.d.). After this was achieved Compaq's growth was rapid; it became a Fortune 500 company by 1986 and had annual sales of $1 billion by 1987 - both of which record for such a young company (Compaq Computer Corporation, n.d.). After a tough time during the economic downturn in the early 1990s, Compaq pushed forward and acquired both Tandem Computers and Microcom which helped

them increase their market share and recover (History of Compaq, n.d.), only to be battered again when the dot.com bubble burst just a few years later.

The merger

Motives

There are a number of reasons why HP chose to acquire Compaq at a time which may have been baffling to some. To set the scene, the economic climate at the time was not good, particularly for a tech firm, as the dot.com bubble had just recently crashed. This was a primary reason why Compaq was keen on the deal - their sales had plummeted and had effectively run out of cash (When HP Bought Compaq, 2003). In the two years running up to the acquisition, Compaq had taken short term loans of $1.7 billion just to survive, and which they would have difficulty paying back (When HP Bought Compaq, 2003). This illustrates the severity of the situation they were in, and calls into question whether they would even have survived without the acquisition.

HP on the other hand, was in a position where it was able to dig its heels in and weather the storm. However, CEO Carly Fiorina wanted more; she wanted to eliminate inefficiencies within the firm and have it come out of the economic slump stronger, saying '*This is a decisive move that accelerates our strategy and positions us to win...At a particularly challenging time for the I.T. industry, this combination vaults us into a leadership role with customers and partners*' (Sorkin & Norris, 2001). There are several ways in which HP looked set to benefit from the acquisition. The deal would combine two previous competitors; this created not only the benefit of gaining market share in the most important segments - computers, printers and servers - but it would also give HP more control over the pricing war that Dell was waging at the time (Hill & Jones, 2008). Furthermore, as the two firms were fairly similar, it meant that the weaknesses of one could generally be resolved by the other - for example one of Compaq's strengths was their industry standard servers, which was a weakness of HP (Burgelman & Meza, 2004). In essence, the acquisition would consolidate two important players in this market, in an attempt to topple, or at least better compete with, the dominant player IBM (Grocer, 2007).

Additionally, the acquisition was expected to generate substantial synergies for HP, predicted to be valued up to $2.4 billion by 2004 alone (Kanellos, 2002). These would be achieved primarily through logistical improvements, increased production and a number of employees being made redundant due to the necessary horizontal integration (Kanellos, 2002).

<u>The deal</u>

HP announced its intention to acquire Compaq in September 2001 for $25 billion, and despite doubts rippling throughout the industry, the deal went through in May 2002 (Sorkin & Norris, 2001). The firm would retain the name Hewlett Packard, or HP, as it is more commonly known, and would rapidly grow to become a direct competitor on par with IBM. HP would now be present in over 160 countries, with 145,000 employees and revenues were expected to be boosted to $87 billion per year (Kanellos, 2002).

The deal was a clear acquisition rather than a merger, with HP shareholders owning 64% of the firm post-deal, while Compaq shareholders would own 36% (Hewlett Packard Press Release, 2001). This was also reflected in the distribution of the leadership positions after the merger; the CEO would be Carly Fiorina (HP CEO), while former Compaq CEO Michael Capellas would become the new president (Hewlett Packard Press Release, 2001). In addition to this, four other directors from Compaq would join the board of HP. The company would remain based out of Palo Alto in California, where the headquarters of HP were, although Compaq's former headquarters in Houston was intended to remain as an important office (Kanellos, 2002).

Integration efforts

Integration was extremely critical in this case, given that the industry had such negative perceptions of the deal - it was important that they be left with no doubts. CEO Fiorina is quoted at the time as saying, *'We will over-gun this, not under-gun it...when in doubt I will over-gun it, because we've got to do it right'* (Burgelman & Meza, 2004). With this in mind, Fiorina took the decision to treat Compaq as an equal and focus on integrated the firm using the best practice method - i.e. when the two firms had different strategies or procedures the best would be kept and the other removed (Allen, 2012).

Planning was an important first step of the integration process for HP and was done with extreme care. During the due diligence process that was completed before the acquisition announcement, key cultural differences were recognised. HP was a more careful, considerate firm that had a heavy focus on planning, while Compaq was much more aggressive and risk taking (Burgelman & Meza, 2004). In addition to this, HP employees were found to have a generally negative view towards the possibility of acquiring Compaq, much more so than Compaq employees - It was therefore also necessary to change this.

Given that the cultures of the firm were found to be so different, the integration process was rigorously planned and structured to the limit of what the law allowed before regulatory approval was even granted (Grocer, 2007). It was decided that the integration team would be jointly headed by HP executive Webb McKinney and Compaq CFO Jeff Clarke, two respected individuals who were familiar with the culture of their firms and would recognise when issues were arising (Grocer, 2007).

What is called a 'clean room' approach was developed in order to ensure that every department of the organisation was some way involved in the integration efforts. This process essentially involves matching resources and departments with their equivalent from the other firm, from which a pair of employees were chosen to be part of the post-merger integration effort that was centralised under McKinney and Clarke (Allen, 2012). In the six months prior to the deal being officially closed the amount of people working on the integration process snowballed to 2,500 (Grocer, 2007). By May 2002, when the acquisition officially took place, all of the 'best practices' had been identified (Harrison & Carroll, 2006) and other decisions such as HR policies, cultural ideals and performance measures had all already been decided upon (Allen, 2012).

A policy of open communication was also adopted, both from the management to the employees and between the employees themselves. An integrated messaging system was set up early on, to ensure that employees could not only contact each other but also be updated on the acquisition progress and company news each week (HP Success Story, 2003). Employees were also encouraged to *get the dead moose on the table*', meaning to speak what is really on their minds and be transparent and honest at all times (Allen, 2012).

Although cultural and operational integration was extremely successful, even surpassing initial targets ahead of schedule (Burgelman & Meza, 2004), strategic integration left a lot to be desired. Particularly when it came to the high revenue-low profit PC segment issues were not resolved - HP had been outsourcing manufacturing while Compaq was self-building (Kanellos, 2002). It is issues in this segment that would cause tensions and produce lower than expected profits in the 2 years following the acquisition.

Cultural differences, conflict and how it was overcome

Initial reactions to the announced acquisition were overwhelmingly negative, the industry not only didn't understand why HP would be making such a large acquisition in such a poor economic climate, but they also expected that the acquisition would lead to a lot of internal

conflict. One analyst summarised this, '*"Dell must be totally gleeful, because these guys are going to spend all their time untangling themselves"* (Rosen, 2011). This perception was only worsened by the proxy battle that followed between HP CEO Fiorina and Walter Hewlett, son of his namesake founder. This situation made it seem like the firm was feuding internally, let alone with another firm and the stock prices paid for this negative publicity.

In terms of organisational culture differences, there were many between HP and Compaq, they were virtually opposites in several dimensions. HP fits the more traditional profile of an established company that has had long term success - they are process oriented, and tend to be extremely careful and considerate when making important decisions (Burgelman & Meza, 2004). Compaq on the other hand, was much more aggressive and results oriented with a 'ready, shoot, aim' attitude (Burgelman & Meza, 2004) and hold employees accountable for their results and their mistakes.

However, cultural conflicts between the two firms were fairly limited, thanks largely to the extremely detailed and lengthy planning and integration processes. By being so thorough and by bringing employees together, HP was able to create a new organisational culture and communicate this throughout the organisation. The biggest source of conflict between the two firms revolved around the pace at which each firm was used to working in. While HP liked to plan and relied heavily on being organised and sticking to structure, Compaq was much more entrepreneurial and spontaneous (Roberts, 2011). However, this was again recognised and HP made a commitment to try and quicken their pace of working (Stachowicz-Stanusch, 2009).

Why was the acquisition successful?

Ultimately, HP's acquisition of Compaq was proved a success; HP was able to secure its long term future as well as becoming a much larger and more viable competitor to IBM (Bloomberg, 2015) Furthermore, many of the expected synergies were indeed achieved, and profits did also eventually increase. There were also few issues with cultural clashes, thanks in large part to the thorough integration planning and process. However, the acquisition was not without its growing pains that had to be overcome. While in the years following the merger, cultural integration was a resounding success, revenues skyrocketed and market share grew, net profits actually worsened for several years before recovering:

Figure 4.6: HP's net profits from 1998 to 2011 (In $ billions)
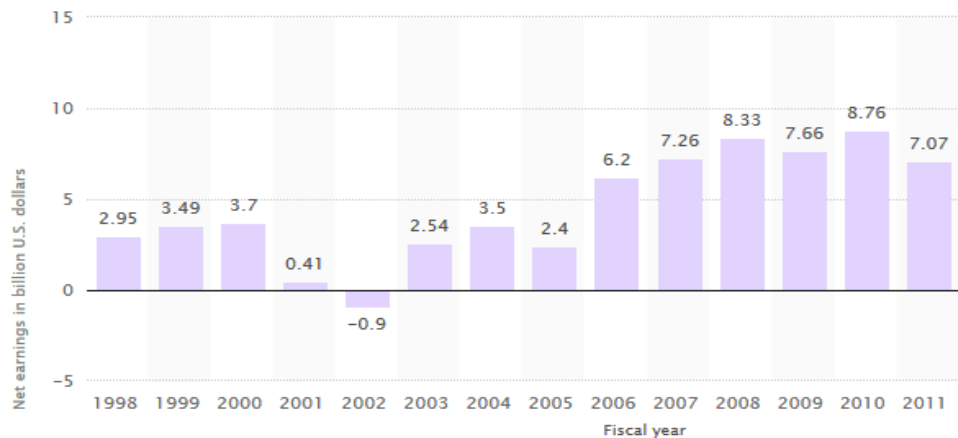
Source: (Hewlett-Packard's Net Earnings, n.d.)

This initial poor performance is due to several reasons. Firstly, the dot.com bubble crashed in 2000, meaning a reduction in performance for any tech firm was to be expected. However, by 2003-2005 this drop in profits should have recovered - so why didn't they? This was primarily due to several leadership oversights by Fiorina and the executives; not only did they pay too much for Compaq in the first place (When HP Bought Compaq, 2003) but a crucial area of the business was being strategically mishandled - i.e. the computer hardware section (Loomis, 2011), which struggled to make profits despite revenues of $40 billion. Failure to address this led to Fiorina being ousted and replaced with new CEO Mark Hurd, who managed to refocus the firm on strategic objectives and rebuild annual revenue (Grocer, 2007).

Conclusion

As this example demonstrates, it is not only culture and cultural integration that can have a huge effect on the outcome of a merger or acquisition. In this case a lack of strategic clarity in just one segment had a detrimental effect on the expected profits of the M&A, as did an inability for the current leadership to rectify it.

It does appear that cultural integration did however play a big role in keeping the two firms together long enough for synergies to be realised, and for the new CEO to rectify the strategic issues within the firm. It is impossible to know for sure, however it seems likely that there would have been many more problems, and perhaps even a breakup of the two firms had the cultural management and integration not been as good as it was.

4.4.2 JPMorgan Chase acquires Bank One Corporation

Introduction

Banking giant JPMorgan Chase (JPMC) announced in January 2004 that it would be acquiring the Chicago based Bank One Corporation for $58 billion - in a deal that would boost them to the nation's second largest bank with assets totalling $1.1 trillion ($58B bank deal set, 2004). The intention of the deal was to '*unite the investment and commercial banking skills of JP Morgan Chase with the consumer banking strengths of Bank One*' (JPMorgan History, n.d.). Analysts praised the logic of the deal (Megginson, Lucey & Smart, 2008), however the fact that roughly 70% of banking M&As result in failure prevented the market from being too optimistic about the prospect of the deal - meaning that the stock market remained fairly neutral in its reaction (Valdmanis, Dugas & Shell, 2004). Due in large part to its due diligence and thorough integration strategies JPMC was largely able to avoid the huge cultural clashes that typically sabotage such a deal. What is particularly interesting about this case is whether or not JPMC's experience and history with M&As is what helped it to learn and ultimately employ a strategy that made this deal successful.

History of the two companies

JPMorgan Chase & Co., as it is formally known, is itself the product of a merger between two historical banks; JPMorgan & Co. and Chase Manhattan Corporation, which took place in 2000 (JPMorgan History, n.d.). With roots that can be traced as far back as 1799, both sides brought a wealth of experience with M&As to the table which undoubtedly helped in this acquisition and in subsequent ones. Even before the acquisition of Bank One, JPMC was one of the biggest Wall Street banks, excelling in a multitude of areas including investment banking, asset and wealth management and financial services (JPMorgan Chase & Co., 2004a).

As was with JPMorgan Chase, Bank One Corporation was also created by a big banking merger in 1998, between Ohio based Banc One Corporation, which was founded in 1968, and First Chicago NBD Corporation which had roots all the way back to 1863 (Bank One History, 2004). The $30 billion merger which created Bank One made it the fifth largest bank in the country and at the time of the acquisition by JP Morgan, Bank One had roughly 1,800 branches across 14 states in the US, as well as well as being of the biggest issuers of credit cards worldwide (Sorkin & Thomas, 2004).

The acquisition

Motives

The acquisition was considered very carefully on both sides in order to determine what benefits could be derived from it. A primary motivation for JPMC was to enhance its position in retail financial services (J.P. Morgan Chase & Co, 2004b). First of all, it would gain considerable market share, particularly in important markets such as New York and Chicago, and would be able to serve many more customers as branch numbers would increase to 2,300 ($58B bank deal set, 2004). In addition to this, JPMC wanted to strengthen their position in the credit card market and reduce their reliance on investment banking and trading ($58B bank deal set, 2004). By acquiring Bank One, JPMC would become the second largest U.S. credit card issuer and would also better their positions on mortgage loans and home equity credit (J.P. Morgan Chase & Co, 2004b).

Another motive for the merger was the expected financial synergies that it could create. Annual pre-tax cost savings were predicted to be in the region of $2.2 billion, which would primarily come from eliminating shared technology and operations (J.P. Morgan Chase & Co, 2004b). Due to these common areas, JPMC was expected to make around 10,000 employees redundant, which would also contribute to the synergies achieved (Valdmanis et al, 2004). Further synergies were also possible from activities such as cross marketing; however, they were not factored in to the savings calculated.

The synergies were obviously also appealing to Bank One when it came to the reasoning behind letting themselves be acquired. Another core reason for them getting involved was to gain a greater geographic diversification. Bank One was a reasonably big player within the U.S market, however internationally its name was much less well known than that of JPMorgan (Gaughan, 2005). Furthermore, they also had weaknesses in their domestic market - such as the fact that they had no major presence in New York, which is something JPMorgan, could remedy (Gaughan, 2005).

The deal

Banking giant JPMorgan Chase & Co. announced in January 2004 that it would be acquiring the Chicago based Bank One Corporation, and by July 1st the deal was already complete, costing JPMC about $58 billion in stocks (Sapsford, Cohen & Langley, 2004). The firm would now have assets worth $1.1 trillion and would have a presence across 17 states in the US alone (Holguin, 2004). JPMorgan Chase & Co would retain its name after the detail, without any additions.

The firm will remain headquartered in New York, where JPMorgan was already based, however the consumer service section of the firm would be run out of Chicago, were Bank One had been located (Sapsford et al, 2004) as they were stronger in that area of the business. In terms of leadership, William Harrison would remain the CEO of JPMorgan Chase as he had been prior to the acquisition, while Bank One CEO James Dimon would initially become president and COO (Holguin, 2004). Harrison agreed to relinquish this post two years after the acquisition had taken place, and take up the role as chairman at that point. Each firm would also be allowed to choose half of the board of directors, which would increase from 12 to 16 members, in an attempt to even out the equality in leadership positions (J.P. Morgan Chase-Bank One Merger, 2004).

Integration efforts

Typically, in the banking sector, M&As have a significant chance of failure, largely down to poor integration (Valdmanis et al, 2004). However, it is safe to say that JPMC was experienced in the process of M&As, given that it had been involved in 5 in just the decade before it acquired Bank One and many more before then (JPMorgan History, n.d.). Furthermore, as a bank they had a fairly good track record of M&A success, which was reflected in the fact that reactions to the deal were fairly neutral - something which is uncommon in this sector (Valdmanis et al, 2004).

By their own admission, JPMC have a tendency to go back to the strategy that had worked best for them; that being careful due diligence and assessment of the firms before any deal is made, followed by a thorough integration of the best practices from each firm (Banking Standards, 2013). Due to this process of assessment and due diligence, JPMC recognised the potential 'fit' of a deal with Bank One before talks about a purchase had even begun, with CEO Harrison going so far as to stating, '*The only firm that made sense to us as a strategic fit and a people fit was Bank One*' (Skertic, 2004).

As talks began and intentions became clear between the management of the two firms, each side set up small review teams, whose goal it was to analyse potential areas of synergy or of conflict (Skertic, 2004). These areas included information systems, the supply chain and cultural differences and issues (J.P. Morgan Chase & Co, 2004b). This went on for several months under the radar of the public and of the majority of employees - the two sides really wanted to be sure that the acquisition would have the best chances of success before making

it official. Following the official announcement in January of 2004, integration efforts got underway more seriously.

What was most important to JPMC was to focus on customers, while collaborating effectively between departments within the firm and to create a culture of high performance (J.P. Morgan Chase & Co. Annual Report, 2003). These had always been key themes during previous M&A activity and was something they also wanted to focus on this time (Banking Standards, 2013). A post-merger integration team was set up in order to ensure that these philosophies were adhered to throughout the integration process.

The integration process and goals of the new firm were carried out and made clear at every level of the organisation. Any redundancies that would take place were clearly communicated from the outset and those employees were given fair severance packages. This meant that other employees were not forced to spend months worrying about whether their job was safe. Furthermore, employees were kept constantly up to date via direct communications and general broadcasts, while managers were trained in how to identify and resolve conflict within the organisation (Banking Standards, 2013). The CEO Harrison himself was also involved in ensuring the success of cultural integration, particularly among the managers. He consistently organised cross-culturing meetings between the two firms, as well as holding seminars were managers from either firm could interact (Heskett, 2012). Combined, these steps help to avoid differences between the two firms from becoming a major issue.

Cultural differences, conflict and how it was overcome

There were certainly differences between the two firms when it came to their organisational cultures, although they were not as different as many of the firms mentioned in the previous cases. The primary differences came from attitude towards risk and the way the firms were run in that respect. JPMC for example, was a more traditionally structured firm that had survived for so long in part due to its cautionary way of working, despite what might otherwise be expected of an investment bank (Tett, 2009). Bank One on the other hand, showed little respect for archaic banking traditions and ways of doing business; they saw taking risks as a necessary part of the business, although they were of the opinion that these should always be properly managed (Tett, 2009).

In addition to this, the risk of clashes between leadership was fairly high in this case, with Bank One CEO Dimon being an ambitious young go-getter who was eager to make an impression

on Wall Street, while JPMorgan CEO Harrison was coming to the end of his career and did not want anything to mar his reputation right before he retired (Chorafas, 2006).

A final point of contention between the two firms was their philosophies in regards to outsourcing, particularly IT outsourcing. While JPMC used IBM on a per contract basis for any IT needs, Bank One preferred to do as much as possible in house, which led to savings of over $2 billion than if they had used the same strategy as JPMC (Hoffman, 2004). In fact, around a third of the synergies expected to result from the merger were due to an overhaul of the IT systems (Hoffman, 2004).

However, despite all of these differences, they do not appear to have manifested themselves into cultural conflict as one might have expected - there are several factors which, when combined, led to this ability to withstand cultural conflicts. Firstly, clear goals were set between the two firms for a new organisational culture that, in the words of the two firms would be, *'based on integrity, respect, excellence and innovation, where diversity and differences are recognized and valued, and leadership development and managing talent are hallmarks of our firm'* (J.P. Morgan Chase & Co. Annual Report, 2003). The two firms created common goals, and a shared philosophy that was communicated throughout every level of the organisation, meaning there was no ambiguity about the identity of the firm and what was expected from employees. Furthermore, by conducting due diligence and implementing an effective integration plan, as well as communicating it effectively to employees, JPMC was able to avoid many of the common difficulties and cultural clashes that an M&A normally brings.

Why was the acquisition successful?

JPMC's acquisition of Bank One ended up being a resounding success, with the two firms able to achieve their initial goals of a range of more diverse product and service offerings, as well as expanding their reaches to new geographical regions. Furthermore, the boost that JPMC gained in terms of size gave it that extra competitive edge it needed to compete with other banking giants such as Citigroup. The two firms were able to achieve this, while also increasing profits; before the acquisition was announced in 2003 the profits for the full year amounted to $6.72 billion, or $3.24 per share (JPMorgan Chase report, 2004). In comparison to this, net profits for 2007, just a few years following the acquisition were already $15.4 billion, or $4.38 per share (JPMorgan Chase report, 2008)

As mentioned, the experience of the two firms in M&As appears to be a significant factor in this case that helped the two firms recognise and develop a strategy for tackling issues such

as culture and integration difficulties. JPMC CEO Harrison stated that '*Mergers have a certain flow*' (Skertic, 2004) and that by recognising and working within this flow rather than against it would make the process run much more smoothly. For example, both sides recognised the need to resolve leadership issues before the merger took place, rather than have the issue be drawn out with squabbling and power struggles later on (Skertic, 2004). This is why the board of executives was split evenly among both firms, despite it being an acquisition rather than a merger (Skertic, 2004). Leadership succession was also organised before the acquisition occurred - it was agreed that although Harrison would retain full control as CEO, after two years he would succeed control to Bank One CEO Jamie Dimon. Dimon was known to be ambitious, and this certainly would have caused conflict had it not been resolved in advance (Tett, 2009). Ultimately the strong and unified leadership structure that resulted from this decision was a major factor in avoiding devastating cultural conflict.

Conclusion

Ultimately JPMC was able to successfully acquire Bank One, which boosted it to the second top spot among banks in the US, due to a combination of factors. Most cultural issues were able to be avoided due a well thought out integration plan, which was the result of months of due diligence prior to the merger announcement. What put JPMC in a position to be able to achieve this was the fact that leadership issues were also resolved early on, in combination with the fact that both sides had extensive M&A experience, giving them a unique insight into the actions they could take to avoid conflict within the organisation, as well as the detrimental effects that conflict could have.

4.5 A Summary of the Cases

Table 4.1: A summary of findings from the case studies

Factors discussed in literature	Factors prominant in each case							
	Failed International M&As		Successful International M&As		Failed Domestic M&As		Successful Domestic M&As	
	Case 1: Daimler-Chrysler	Case 2: Ford-Volvo Cars	Case 3: BP-Amoco	Case 4: Deutsche Bank-Bankers Trust	Case 5: Sprint-Nextel	Case 6: AOL-TimeWarner	Case 7: HP-Compaq	Case 8: JPMorgan Chase-Bank One
National Culture								
Power Distance								
Collectivism vs. Individualism	x	x		x				
Masculinity vs. Femininity		x						
Uncertainty Avoidance	x	x	x	x				
Long vs. Short-term orientation	x	x	x	x				
Indulgence vs. Restraint	x			x				
Organisational Culture								
Process vs results oriented		x	x	x	x	x	x	
Teamwork vs. Task focus		x	x					
Loose vs. Tight Control	x	x		x	x	x		x
Role rigidity vs. flexibility	x	x		x	x	x	x	x
M&A Process								
Cultural due diligence			x	x			x	x
Thorough cultural integration		x	x	x	x		x	x
Type of Cultural Clash								
Cultural Similarity								
Corporate Clash			x	x	x	x	x	x
National Clash								
Dual Clash	x	x						
Sources of Conflict								
Underestimation by management	x	x				x		
Communication Issues	x	x				x		
Imbalance in power	x		x			x	x	x
Lack of identification with the new firm	x	x			x	x		
Not Invented Here	x					x		
Keys to success implemented?								
Integration Plan	x	x	x	x	x		x	x
Clear Vision			x	x			x	x
Understanding cultural differences		x	x	x			x	x
Employee involvement	x		x	x	x		x	x
Customer focus								x
HR restructuring				x	x	x		x
Downsizing								
Other influencing factors								
Achieved synergies	x	x			x	x	x	
Recent experience with M&As		x		x				x
Lack of Trust	x				x		x	
Poor leadership	x						x	
Global Economy							x	
Level of autonomy		x	x			x		
Speed of Integration			x	x		x	x	x
Other integration issues					x		x	x

Above is Table 4.1, which summarises the main findings from each case and allows a side by side comparison of factors which influenced the case outcome. There are several interesting results;

1. There were noticeable cultural differences in every case, regardless of whether they were successful or not, which would seem to indicate that it is not the cultural differences themselves that influence the success or failure (at least in these cases), but the way in which they are managed.

2. The successful M&As appear to have spent more time completing due diligence and achieved a thorough cultural integration - *none* of the failure cases management to complete both of these stages.

3. As was discussed in section 2.7.3, the sources of cultural conflict are largely related to improper management, with only a lack of identification with the new firm and 'not invented here' being more to the cultural differences themselves. We can see in Table 4.1 that in 3 out of 4 of the failed cases, the failure was linked to managerial issues such as underestimation by management and a lack of communication, which seems to reinforce the point made above.

4. When it comes to the keys to success defined in section 2.7.4, there is some evidence to support the theory that they are responsible for success in an M&A. All of the successful cases completed a majority of these steps. Furthermore, all successful cases had a clear understanding of the cultural differences they were facing, they involved employees and they had both an integration plan and a key vision of what they wanted to achieve. Only downsizing not playing a role in any of the cases, while a focus on customers was only mentioned in one case, seemingly suggesting that these are less important issues.

5. Another important issue to note in Table 4.1 is that all of the cases had several other factors which influenced either their success or failure, whether it be the level of achieved synergies, the speed of integration, poor leadership or any of the other factors. This clearly indicates that there are many influences on whether an M&A succeeds or fails, not just culture alone.

Chapter 5: Discussion, Conclusions and Recommendations

5.1 Discussion of the Research Questions

Now the results of the cases as well as the information sourced in the literature review will be discussed in context with the original research questions.

Are there differences in how firms approach national culture differences as opposed to corporate culture differences?

Looking at the cases, it appears as if firms were more likely to identity possible cultural conflicts in M&As in which there is also a cross-border, or national culture element in play - something which was also found in the current literature. As a result, these firms were more likely to have some kind of integration in place as well as have a better understanding of cultural differences. In terms of how they actually handle national and organisational culture differences in the M&A process, there does not appear to be any differences in the case examples.

Do cultural differences always lead to cultural conflict within an M&A?

Cultural differences do appear to lead to minor conflicts quite often; it can be seen that in almost every case there was some kind of cultural conflict. However, minor cultural conflict is much less damaging to a firm than a severe conflict, and severe conflicts appear to manifest due to the mismanagement of cultural differences, rather than their presence specifically. If we take the Deutsche Bank - Bankers Trust merger, there were cultural differences comparable to those in the Daimler- Chrysler case, and yet the outcomes are completely different due to how the cultural differences were handled.

How do firms tackle cultural conflict during the M&A process?

In terms of tackling conflict, similarly to illness, prevention seems to be more effective than trying to cure an already present issue. All of the successful firms analysed conducted detailed due diligence as well as cultural integration in order to limit the number and severity of conflicts arising in the first place. In addition to this, having open lines of communication helps to prevent conflict by allowing employees to air their grievances before the issue escalates. In terms of tackling cultural conflict that have already arisen, the solutions appear again to be communication, clarity and honesty. In both the BP-Amoco and Hp-Compaq cases cultural

conflicts were present, however were able to be overcome because employees felt like they were listened to and trusted the firm, as well as the fact that their firms were aware of the conflict and were able to try to resolve it.

Do firms' integration strategies differ based on culture?

For the most part, integration strategies seem to remain the same regardless of whether the cultural influences on the M&A are national or organisational. One of the few differences that did emerge through the case analysis was how much autonomy was provided to each firm after an M&A - it seems more likely that firms be allowed more autonomy if the cross-border cases. This may be because the firms believe that it is best not to 'overpower' the other partner in the M&A, however having too much autonomy seems to have more of a negative effect if any, one only has to look at the case of Ford - Volvo to see that.

What behaviour differentiates the successful M&A firms from those that failed?

There are several things that were lacking in the vast majority of the failed M&A cases; these were planning before the M&A and cultural due diligence and communication and clarity. While these may seem like obvious things to look out for, they were all surprisingly overlooked by nearly every failure case analysed. To compare, many of the failed firms began to assess the firm's culturally only when the M&A deal was close, or even after it had already taken place, while in the successful cases there was always a thorough cultural analysis before a deal was even suggested. This proactive approach, as well as having the foresight to make sure two-way communication lines are open are the biggest differentiating behaviours of the successful firms.

What are the other main reasons for the failure of M&As?

In the case summary table, all other influencing factors to the success or failure of the M&As that came up during the case analysis are included at the bottom. All of the factors identified were; the level of synergies achieved in comparison to what was expected, recent experience with M&As, the level of trust for the other organisation, leadership quality, the global economy, the level of autonomy allowed, the speed of the integration process and other integration issues (i.e. integrating IT programmes).

In all of the failure cases, the firm achieved lower levels of synergy than was initially expected, and this ultimately contributed to their failure, whether it be from lack of faith from stockholders

or an inability to make profit. Several of the success and several of the failure cases had recent experience with M&As - this would be an interesting area for future research given the mixed results here. Another factor that had a mixed influence was the level of autonomy given - in the Ford- Volvo case for example too much autonomy was allowed and they came to regret it, while in the BP-Amoco case which was successful, Amoco was allowed no autonomy. Perhaps contradictory to what one might think, more autonomy might have a negative influence on the firms involved in M&As. The third most important factor that was identified here is the speed of the integration process - the faster the better. This is linked to how much a firm plans for the M&A as well, and it was found that in all of the successful cases, integration was planned in advance and thus completely very quickly. If it becomes a long and drawn out process, such as was the case in Ford-Volvo, or the AOL-Time Warner case, there is much more room for mistakes and misinterpretations to be made.

How exactly does cultural conflict play a role in the failure of M&As, and what can management do prevent it?

The most accurate metaphor that can be used to understand the role of cultural conflict in the M&A process is that of a cut or wound. Being careful and responsible can prevent bad or even fatal wounds from happening in the first place, however it is not uncommon to get the odd cut or scrape. What is important then is how you take care of the wound. If you treat it appropriately by cleaning and bandaging it, then in most cases the wound will be healed and any problems overcome. However, if this is not done the wound may become infected or even fester, causing much greater problems than it otherwise would have - something which has been referred to in the cases as the 'snowball effect'. Typically, the person will then become sick - how sick depends on the severity of the wound - and may even die from a fever or other complications if the situation is not taken under control and treated. This kind of evolution is the same process that cultural conflict goes through in an M&A - how management can prevent or respond to a cultural conflict 'infection' will be discussed in the next section; the recommendations for management.

5.2 Managerial Recommendations

1. Preparation is key

As was seen in the literature and in the cases, preparation and prevention of cultural issues is a topic that kept resurfacing. In all of the successful M&A cases this type of behaviour was practised - the firms all conducted extensive due diligence before agreeing to the merger, and then between merger announcements and the official deal much of the integration process was also already planned or implemented where possible. On the flip side of the coin, none of the failed M&A cases that were investigated conducted the appropriate level of due diligence, and only 2 out of 4 conducted a reasonable effort in the cultural integration process. However, without due diligence, the cultural differences between the firms is often either underestimated or misunderstood, which in turn limits the success of the integration. Therefore, in order to give your merger or acquisition the best chance of success, doing an in depth cultural assessment beforehand is recommended, which then allows you to plan the integration process more thoroughly and appropriately.

2. Communicate and focus on clarity

As was mentioned in the recommendations from the literature (sections 2.7.3 and 2.7.4), communication and clarity are key throughout the M&A process - it helps any issues to be identified and resolved, as well as helping employees to identify with and trust the other firm. This was confirmed during the case analysis; communication issues were a major source of cultural conflict in 3 out the 4 failed M&A cases, while the lack of a clear vision/goals for the firms was also an issue in every failure case. If we contrast this then to the successful cases, none of them had significant communication issues, because they made it a key part of their integration strategy to keep two-way lines of communication open. Furthermore, all of the successful cases had a clear vision about what they needed to do, how they were going to achieve it, how this would affect the integration process and most importantly they communicated this to the employees, who then felt included and were more understanding as a result. Therefore, it is important that you create a clear vision/list of expectations of how you see the M&A process, communicate this at every stage to your employees and make two-way communication possible, so that grievances may be aired rather than resentment growing.

3. Do not underestimate culture

This recommendation may seem obvious now, given all that has been discussed, but sometimes the most basic advice is also the most important. The worst thing you can do is to underestimate the importance of culture, or to underestimate the severity of a cultural conflict. It is an issue that needs to be considered and needs to be resolved. Again, this was found to

be an issue in the literature (section 2.7.3) as well as in 3 out of 4 of the failed cases. Consider cultural conflict as a serious wound - how can you prevent it, or in the worst case scenario, treat it, in order to avoid serious repercussions. These are questions you need to ask yourself throughout the M&A process.

5.3 Limitations of this Research

Regrettably, one of the biggest limitations of this research is the fact that it is lacking primary data, such as interviews, to go along with the secondary data the cases were based upon. Although evidence was provided using interviews done by other people, having the chance to interview managers that were involved in these cases would have provided additional valuable insights and allowed me the chance to dig deeper on several issues than secondary data would allow.

In an ideal scenario, given time and connections, it would have been ideal to study one or two cases, but then in extreme detail - conducting interviews, collecting secondary data as well as attempting a quantitative analysis to assess the culture and opinions of the organisations. However, given the lack of willingness to take part, or in most cases the simple lack of responses, when I tried to contact people within these organisations, it quickly became apparent that this type of study would incredibly difficult to achieve, particularly given the timeframe and length limitations of the thesis. It was for this reason, that 8 cases were chosen to be analysed, in order to try to look at the cultural issues from a unique angle and draw useful, although admittedly perhaps less generalisable conclusions, about cultural conflict and what can be done to prevent or resolve it.

Another possible weakness may be the fact that as all the firms used to demonstrate national culture are large international firms, the effect of national culture may have been diluted. This may also go some way to explaining the lack of significant differences found between how international or domestic firms behaved in regards to tackling cultural differences. Having said that, the cases chosen for the international M&A case studies were selected after a careful analysis of their national culture and how it affected the behaviour of their management within the corporate headquarters. In each case, the influence of national culture on the beliefs and behaviours of the firm, as well as its influence on the organisational culture of the firm was noticeable, and have been discussed individually in each case. Given that organisational culture is partially derived from national culture, as was mentioned in the literature review, it may be impossible to completely distinguish the two as was attempted in this thesis – however,

neither are they similar enough to lump together under the banner of culture, which made it worth investigating.

5.4 Recommendations for Future Research

There were several factors that appeared in the cases as influencing either the success or failure of M&As that were not necessary related to culture. Nonetheless, they provide intriguing areas of potential future research, especially given the mixed results they appear to have in the cases.

The first potential area for future research is the influence of (recent) previous merger or acquisition experience on the subsequent performance of the firm in additional mergers or acquisitions. The inspiration for this topic comes primarily from the Deutsche Bank - Bankers Trust (DB-BT) case as well as from the JP Morgan - Bank One case (JPM-BO). The idea is that firms may learn from previous M&A experience, whether it be good or bad, in order to ultimately perform better the next time they attempt a merger or acquisition. For example, in the DB-BT case, Deutsche Bank had a lot of recent experience, acquiring a multitude of banks across Europe in the years leading up to their merger with Bankers Trust. Not all of these experiences were successful however, such as when they acquired Morgan Grenfell. Given their extremely successful integration of Bankers Trust, it would be interesting to know what they had learned and how it had influenced the approach they took with Bankers Trust in comparison with previous M&As. For the JPM-BO case, JPMorgan already had a lot of previous experience in conducting successful mergers and acquisitions and this undoubtedly helped in their acquisition of Bank One as well. It would be interesting to compare this to a firm that has previous experience in failing in M&As, and investigate whether their learning or assessment processes are different.

Another interesting topic that arose throughout the cases was the issue of how much autonomy an acquired firm is allowed following the M&A process, whether this has an influence on the success or failure of the deal and eventually also whether culture plays a role in this. Varying levels of autonomy were seen in the case studies, and in some cases it was seen to have a large influence on whether the deal was a success or failure. For example, the in the Ford-Volvo case, Ford was initially cautious of appearing too dominating to their Swedish counterparts, however this eventually worked against them - when results were not as they expected, they wanted to gain more control, however were met with more resistance than they likely would have been had they taken control initially. In another case, that of BP-Amoco, BP openly stated that they would be leaving nothing to chance and took full autonomy away from

Amoco. Although perhaps not initially pleasant for the firm, their openness about doing so and the fact that there were no doubts about what was happening ultimately appearing to have a positive influence on the outcome of the merger. Therefore, it would be interesting to investigate what level of autonomy is ideal for an M&A, and whether different culture types would influence this ideal level.
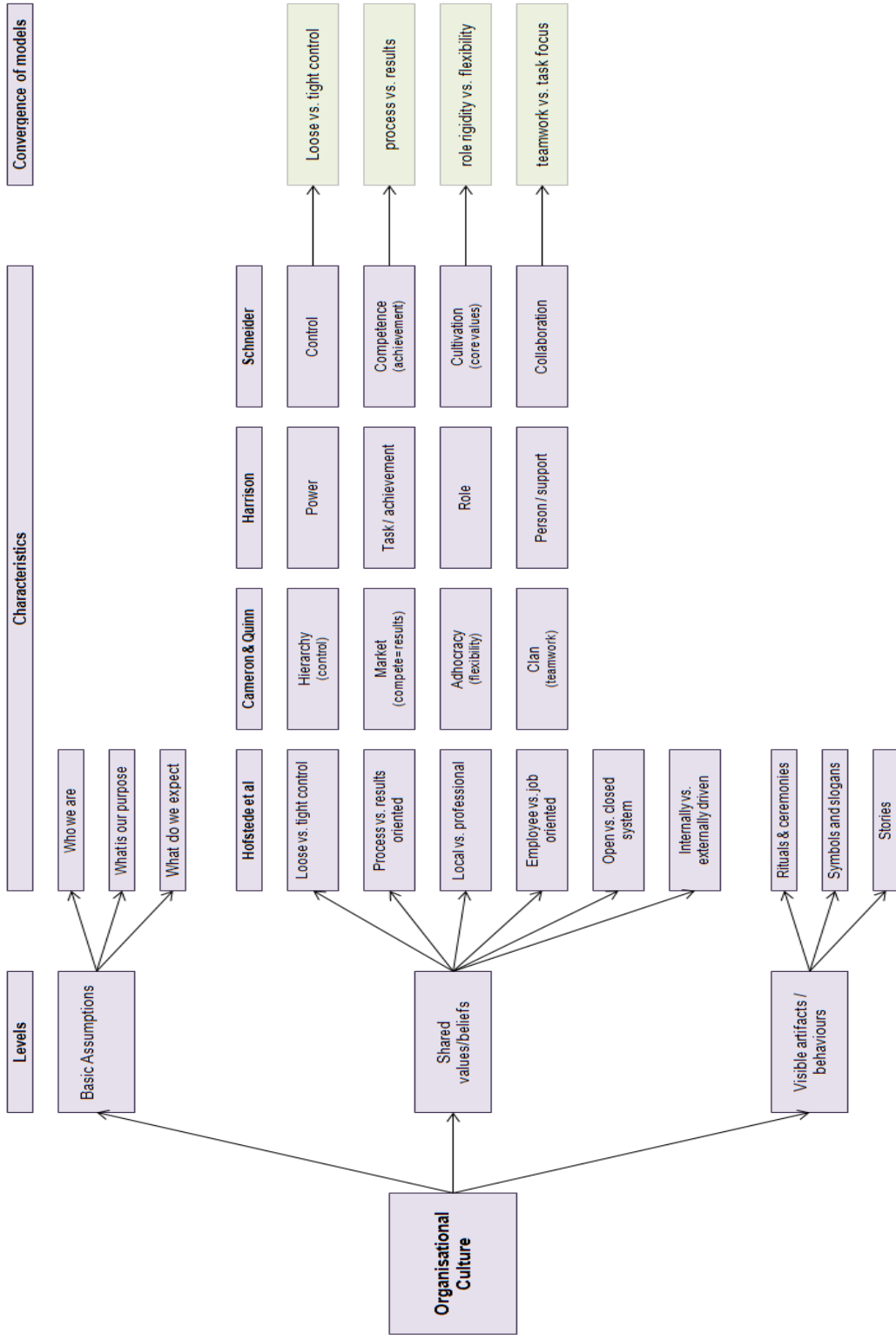
Appendix A: Flowchart demonstrating the convergence of national culture models
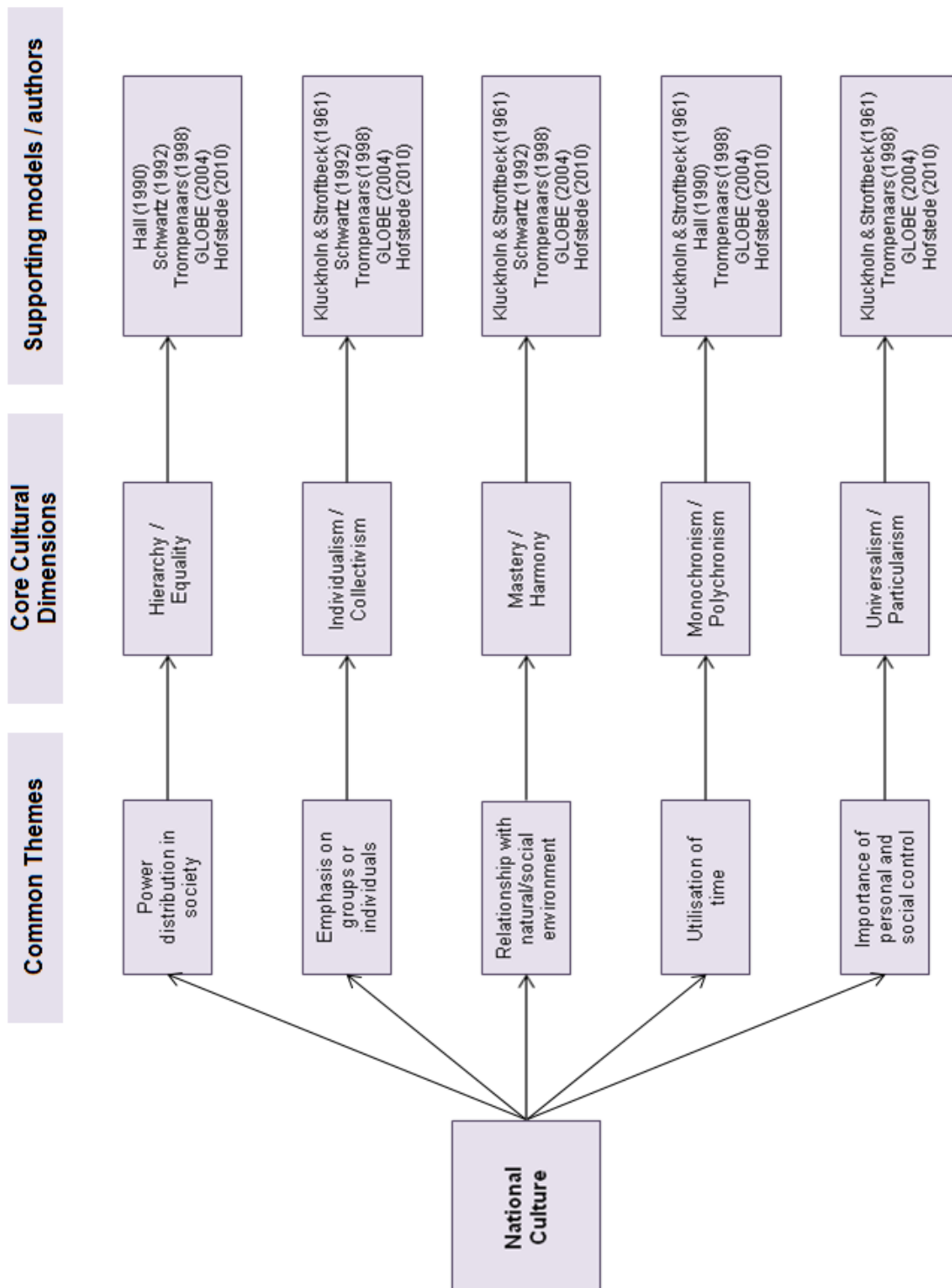
Source: Based on data sourced from Nardon & Steers (2009)

Appendix B: Flowchart demonstrating the convergence of organisational culture models and types

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