HELSINKI SCHOOL OF ECONOMICS
Department of Marketing

CULTURAL DETERMINANTS OF PERFORMANCE IN INTERNATIONAL MERGERS AND ACQUISITIONS

International Business
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TIIVISTELMÄ

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Kansainvälisten fuusioiden ja yritysostojen menestymiseen vaikuttavat kulttuuritekijät

Tutkimusongelma ja tutkimuksen tavoitteet
Vaikka useat tutkimukset ovat osoittaneet kulttuurierojen vaikutuksen tärkeyden fuusioiden ja yritysostojen menestymisessä, fuusioiden ja yritysostojen korkeat epäonnistumisprosentit viittaavat siihen, etteivät yritykset edelleenkään ymmärrä näitä asioita oikein tai ota niitä kunnolla huomioon. Tämän tutkimuksen tavoitteena on tutkia mitkä kulttuuritekijät vaikuttavat kansainvälisten fuusioiden ja yritysostojen menestymiseen. Työ pyrkii vastaamaan seuraaviin tutkimuskysymyksiin: Mitkä kulttuurierot ovat olennaisia kansainvälisten fuusioiden ja yritysostojen lopputuloksessa, miten kulttuurierot vaikuttavat kansainvälisten fuusioiden ja yritysostojen lopputulokseen, ja miten kansainväliset fuusiot ja yritysostot tulisi hoitaa kulttuurinäkökulmasta katsoen?

Tutkimusmenetelmä ja -aineisto
Työn metodologia seuraa pääpiirteiltään Kasanen ym. (1993) esittämää konstruktiivista lähestymistapaa. Kirjallisuuskatselmuksen pohjalta työlle laadittiin teoreettinen kehys, jonka soveltuvuutta yritysmaailmaan tarkasteltiin tutkimalla suomalaisia yrityksiä. Tutkimusmenetelmänä käytettiin ns. monitapaustutkimusta (multiple-case study), joka pohjautui lähinnä Yin:in (1994) oppeihin. Tutkimukseen valitut case-yritykset olivat Stora Enso, Datex-Ohmeda, Outokumpu, Nordea ja Yritys A. Jokaisen yrityksen kohdalla tarkasteltiin myös yhtä tai useampaa yksittäistä fuusiota ja/tai yritysostoa (ns. embedded case:ä), johon yritys oli osallistunut.

Tutkimuksen tulokset
Kansallisten, toimiala-, liiketoiminta- ja organisaatiotason kulttuurierojen havaittiin vaikuttavan kansainvälisten fuusioiden ja yritysostojen lopputulokseen. Näiden kulttuurierotasojen välillä on selvästi päällekkäisyyksiä, ja kunkin tason vaikutus on tapauskohtainen. Kaikista tärkeimmät tekijät, joiden kautta kulttuurierojen nähtiin vaikuttavan fuusioiden ja yritysostojen lopputulokseen, olivat fuusiotyyppi, kieliongelmat, 'me versus he' -vastakkainasettelu sekä kulttuuriseen erilaistumiseen (cultural differentiation) ja organisaatioiden yhdistämiseen (organizational integration) liittyvien voimien välinen tasapaino. Tutkimuksessa esiin tulleet kulttuurierojen huomioimiseen tähtäävät johtamistoimenpiteet olivat kulttuurien välinen analyysi M&A -prosessin päätöksentekovaiheessa ja kulttuurinen due diligence -prosessi neuvotteluvaiheessa. Kulttuurien integroinnissa tärkeimpinä työkaluina korostuivat kulttuuritilinteon laatiminen (culture audit), yhteisen identiteetin kehittäminen tai siihen sulauttaminen, johdonmukainen viestintä, kulttuurikoulutus, konsulttien palkkaaminen sekä vahva johtamisote ja nopeus. Vaikka tutkimus vahvistikin, että kulttuuriasiat ovat vain yksi vaikuttava tekijä fuusioiden ja yritysostojen lopputuloksessa, se myös osoitti, että terveellä kulttuurijohtamisella voidaan osaltaan myötävaikuttaa näiden tapahtumien onnistumiseen.

Avainsanat: Akkulturaatio, fuusio, fuusiotyyppi, kansallinen kulttuuri, kulttuurien yhteenopivuus, liiketoimintakulttuuri, organisaatiokulttuuri, toimialakulttuuri, yritysosto

ABSTRACT

Master's Thesis May 2003

Cultural Determinants of Performance in International Mergers and Acquisitions

Research Problem and Objectives
Although an increasing number of studies have shown the importance of coping with cultural differences in the outcome of mergers and acquisitions, the high failure rates reveal that these issues are still either widely misunderstood or ignored by the merging companies. The objective of this study is to explore the cultural factors, which have an effect on the outcomes of international mergers and acquisitions. The research questions that the study seeks to answer are: What are the cultural differences relevant to the outcomes of international mergers and acquisitions, how do cultural differences affect the outcomes of international mergers and acquisitions and how should international mergers and acquisitions be managed from a cultural perspective?

Methodology
The methodological approach applied largely resembles the constructive approach introduced by Kasanen et al. (1993). A theoretical framework was first constructed according to the findings of a literature review. The aim of the empirical part was to examine the framework in a real-life setting by linking it to the context of Finnish firms. The research method used was the multiple-case study, mainly based on the propositions of Yin (1994). The case companies examined were Stora Enso, Datex-Ohmeda, Outokumpu, Nordea and Company A. Each of the cases included one or several embedded cases, i.e. the examination of specific mergers and/or acquisitions undertaken by that company.

Results of the Study
Differences in national, industry, business and organizational cultures were all perceived to affect the outcomes of international mergers and acquisitions. The different levels were clearly seen as interconnected, and the importance of each varies depending on the case at hand. The most pertinent factors, through which the cultural differences were perceived to come to play, were the merger type, language problems, the 'us vs. them' antagonism and the balance between the forces of cultural differentiation and organizational integration. The cultural management efforts highlighted by the study include a cross-cultural analysis in the decision-making phase of the M&A process and a cultural due diligence in the negotiation phase. Conducting a culture audit, the development of or introduction to a common identity, consistent communication, cross-cultural training and the employment of consultants were established as the most important tools in cultural integration. Strong leadership and speed were also emphasized. Although the study confirms the fact that cultural issues are just one set of factors affecting M&A performance, it also demonstrates that a sound cultural management will contribute to making deals successful.

Key Words: Acculturation, acquisition, merger, business culture, cultural fit, cultural management, industry culture, merger type, national culture, organizational culture

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1 Introduction

1.1 Background

When the two drug outfits, Swedish Pharmacia and U.S.-based Upjohn merged in 1995, it was supposed to be the perfect match. The companies had complementary research strengths: Upjohn in markets such as fighting infectious diseases and Pharmacia in areas such as cancer. Upjohn's sales force in the highly profitable U.S. market was presumed to drive strong growth among both of the companies' products, while cost savings from combining the companies were thought to strengthen profits. (Barrett 1999, 63). By 1997, however, it had become evident that the merger had turned out a disaster. The merged company's earnings in 1997 plunged an unbelievable 26% and salesforce turnover in the U.S. hit 25% (Seiden 1999, 98).

The merger was not just an attempt to blend two different national ways of doing business: it was actually three, since Pharmacia had not been able to integrate an earlier Italian acquisition. Even that multicultural challenge might have worked out if the company had created a clear structure of decisive command and top-down decision making from the start. But this "brutal" American way of implementing mergers was not befitting to the more socially oriented Swedes or Italians. (Seiden 1999, 98). Time was wasted on arguments about "American" practices, such as banning alcohol at lunch (The Economist 1999, Jan 9, 21). Instead of making tough decisions that could have led to cost cutting, the management's main concern was to maintain good relations among the executives from the two sides, i.e. "not to step on anyone's toes" (Seiden 1999, 98).

The compromises led to autonomous sites in Sweden, Italy and the U.S. and a failed effort to have a headquarters on "neutral soil" in England (Barrett 1999, 63). The encountered issues ultimately resulted in the resignation of the company's American CEO, a plunge in the stock price, and a loss of investor and analyst confidence in the ability of the board of directors to manage the company. In May 1997, the firm moved to New Jersey and appointed an outsider, Fred Hassan, as the new CEO (Belcher & Nail 2000, 227,231).

After Hassan took over, the basic policies of the company changed. Hassan was given the power and the control needed to pull the company back from the verge of disaster. The headquarters was established in New Jersey, the office in London was closed, and the autonomous business units in Stockholm, Kalamazoo and Milan were dismantled. Pharmacia's culture was successfully assimilated into the new firm's culture, and Pharmacia & Upjohn is now essentially American. (Seiden 1999, 100).

The Pharmacia & Upjohn case is an excellent example of how culture clashes and poor management can turn a promising merger into a disaster, but also of how effective post-merger leadership can save a challenging cross-border merger.

1.2 Research Problem

The end of the 20th century witnessed an increasing number of mergers and acquisitions. According to The Wall Street Journal Almanac, the number of mergers and acquisitions worldwide increased nearly six-fold in a ten year period, from approximately 4,100 in 1986 to 23,600 in 1997 (Weekly Corporate Growth Report 1999, 10219). Amongst the mergers in the end of the 1990s were several significant deals, such as the $80 billion merger of Exxon and Mobil and Daimler-Benz's takeover of Chrysler (The Economist 1999, Jan 9, 19).

Due to a slow global economy and tight credit markets, worldwide M&A activity has been slowing down steadily since the first quarter of 2000. The year 2002 has not seen a variation from this trend. The volume of worldwide mergers and acquisitions fell by 45% in the first quarter of 2002 to $248 billion, from $452 billion in the same period in 2001, according to New York-based Thomson Financial. That was the lowest volume since the second quarter of 1995. The number of mergers and acquisitions in the first quarter fell to 5,400, which was the lowest since the fourth quarter of 1994. The accounting uncertainty originating from recent accounting troubles in the US has only added to the unwillingness of companies to engage in mergers and acquisitions. (Platt 2002, 18).

Despite the decrease in the number of mergers and acquisitions, there have been a number of major mergers in the beginning of the 21st century. Such was the biggest merger in history – the $165 billion merger between America Online (AOL) and Time Warner in January 2001 (Hahn 2002, 38). Some of the largest recent Finnish cross-border mergers have been Stora Enso's €4.9 billion acquisition of Consolidated Papers in the United States in 2000 (Stora

Enso 2000) and Outokumpu's €1.1 billion Avesta-Polarit merger, which took place in January 2001 (Outokumpu 2002).

Although considerably high levels of financial investment are involved and despite the fact that companies have gained more experience in mergers and acquisitions in the past decade, empirical studies have repeatedly shown that more than a half of post-merger organizational integration processes have resulted in disappointments or outright failures (Lajoux & Weston 1998, 34-37). For example, a Mercer Management Consulting 10-year study of 300 major mergers in the 1990s found that the total return to shareholders lagged behind the average for their industries in 57% of these newly merged companies (Daniel 1999, 19). In the same line, a KPMG study involving 700 deals from 1996 to 1998 found that only 17% of all mergers and acquisitions actually added to shareholder value. (Gitelson et al. 2001, 40).

According to Mark Sirower's (1999) studies on mergers in both the 1980s and 1990s, the percentage of mergers failing to achieve their anticipated value has not changed over time. In other words, despite the fact that the deals in the 1990s were thought of as "more strategic", the evidence shows that they were no more likely to succeed than the deals of the 1980s.

Mergers and acquisitions nowadays differ significantly from the "great conglomerate boom" of the 1960s, when the biggest motivation for M&A activity was diversification, which, in turn, presented very limited or no need for organizational integration. The merger activity is now dominated by combinations between companies in similar rather than unrelated business activities. Consequently, the integration of some or all of the human resources has become inevitable. Integrating previously separate and often very different organizational cultures presents a major managerial challenge, because mismanagement is likely to result in poor morale, employee stress, increased sickness absence, high labor turnover and lowered productivity. (Cartwright & Cooper 1993, 58).

Most studies on mergers and acquisitions, both made in the beginning of the 1990s (e.g. Buono et al. 1985, Morosini et al. 1994, Olie 1994) and more recently (e.g. Gitelson et al. 2001, Krell 2001, Mazur 2001), have identified cultural differences as the main cause of post-merger problems. In a 1999 Conference Board survey of 656 CEOs, M&A management was chosen among the top three management challenges (Paige 1999, 4). Evidence from both research and the testimony of executives at conferences and seminars have suggested that unrelenting problems of culture, organization, human resources and systems have caused deals to fall apart or lead to severe management problems (Mitchell 1999, 1).

In short, **the research problem** is: Although an increasing number of studies have shown the importance of coping with cultural differences in the outcome of mergers and acquisitions, the high failure rates reveal that these issues are still either widely misunderstood or ignored by the merging companies.

1.3 Research Questions and Research Objectives

The objective of the study is to examine the cultural determinants of performance in international mergers and acquisitions by the means of an extensive literature review as well as an empirical study.

The questions that this study will seek to answer are:

(1) What are the cultural differences relevant to the outcomes of international mergers and acquisitions?

(2) How do cultural differences affect the outcomes of international mergers and acquisitions?

(3) How should international mergers and acquisitions be managed from a cultural perspective?

The aim is first to present a comprehensive overview of the cultural factors affecting the outcomes of mergers and acquisitions and draw a theoretical framework from these findings. This theoretical framework will then be explored by an empirical study and modified accordingly. The ultimate objective is to analyze the findings of the study in order to answer the research questions as well as identify possible new research gaps in the study field, which could then be used as a basis for further research. Although, as implied by the topic of the study, the emphasis is on international mergers and acquisitions, domestic mergers and acquisitions have been included in order to examine the differences between the two. Moreover, the study concentrates on exploring what the cultural factors affecting M&A performance (the cultural determinants of performance) are, and not the exact (e.g. financial) effect these factors have on the performance. In other words, the performance per se has not been an explicit object of this study.

1.4 Definitions and Concepts

1.4.1 International Mergers and Acquisitions

Mergers and acquisitions are often discussed together in the literature, but they are not, however, quite identical phenomena, since they result from two legally different transactions. A merger is "a statutory combination of two (or more) corporations, either by the transfer of all assets to one surviving corporation or by the joining together of the companies into a single new enterprise". In principal, mergers can therefore be defined as cooperative agreements between equal partners. In practice, however, the partners do not necessarily have equal power. An acquisition, on the other hand, "takes place when a company buys enough shares to gain control in another". The takeover may be termed friendly or hostile, depending on the way it is perceived by the shareholders and management of the acquired firm. Formal power relations are more clear-cut than in a merger, as the acquiring firm clearly assumes control over the other. (Gertsen et al. 1998, 17).

In spite of the differences, however, mergers and acquisitions share a wide range of problems and challenges as far as their cultural dimensions are concerned (ibid.), and will therefore be treated together in this study. The terms mergers and acquisitions will also be used interchangeably, excluding passages where either term is specifically scrutinized. The abbreviation "M&A" is used instead of the phrase "mergers and acquisitions" as a determiner of the following noun (e.g. as in M&A management or M&A process) to avoid unnecessary repetition and thereby as an attempt to make the text more reader-friendly.

The term 'international' refers to mergers and acquisitions involving companies originating from different countries. It differs from the term 'cross-border' in that it also refers to transactions made inside the parameters of one nation, such as a deal made between a business unit of a foreign company and a local company (e.g. a business unit of a Finnish firm located in the United Stated targeting an American company).

1.4.2 Merger and Acquisition Performance

The assessment of the success or failure of a merger or acquisition can vary substantially depending on which aspect of post-merger performance is measured and whether failure is defined in extreme terms – such as the eventual sale of the acquired unit – or as the inability to meet certain financial goals. These financial goals include e.g. significant growth in net income or return on equity. The determinant of success or failure used in most of the articles referred to in this study is the post-merger or post-acquisition share value, as it has been found to suffer in the long run in most of the studies based on this factor (Lajoux & Weston 1998, 34). In the empirical section, however, the concept of performance varies according to the perception of the interviewee, and is therefore very subjective.

1.4.3 National and Organizational Culture

The concept of culture chosen for this study is the classic concept of culture, as it represents the mainstream of thinking and is used by the majority of researchers in the field. It is based on the classic anthropological concept of culture (dating from the 1880s), which sees culture as "an empirical category, a system of assumptions, values and norms which can be objectively described". (Gertsen et al. 1998, 21). According to one of the most famous advocates of the classic concept, Geert Hofstede (1991, 5), culture is always a collective phenomenon, as it is at least partly shared by people from within a certain social environment, which is where it was learned. In his words culture is "the collective programming of the mind which distinguishes the members of one group or category of people from another".

If we depict culture as an onion, the central layers (or the core of culture) can be thought to represent *national culture* (Olie 1990, 210). These layers are formed by values, which are feelings of right and wrong, good and evil, beautiful and ugly, rational and irrational. It is believed that these values are already acquired in early childhood and are resistant to change in later years. National cultural values are so deeply ingrained in us, that we cannot easily recognize or define them. (Hofstede 1991, 8). These values are formed in the society's history and tend to be transferred from generation to generation, reinforced by social institutions (Schein 1987, 25).

The outer layers of the onion can be seen as the *organizational culture*, which is embodied in symbols, rituals and heroes. Symbols are words, gestures and objects, such as manners of speaking and dress habits. Rituals refer to social rules and norms, while heroes are persons that are used as role models. (Hofstede 1991, 7-8). If culture is thought of as an iceberg, organizational cultures refer more to the elements that can be seen, while national cultures are the underlying elements (Olie 1990, 210). Examples of the manifestation of organizational culture other than manners of speaking and dress habits include the level of formality at the workplace, the way in which employees are treated, the way in which customers are treated and the atmosphere of the workplace in general (e.g. how visitors are greeted and what their, as well as the employees', perception of the organization is) (Erkkilä 2001, 45).

In a similar way that national culture is formed in the nation's history, so is organizational culture; the founders often play an important role in its creation (Schein 1987, 25). Malekzadeh's and Nahavandi's (1988, 80) definition for organizational culture is "the beliefs and assumptions shared by members of an organization", while Cartwright and Cooper (1996, 56) define it simply as "the way in which things get done within an organization". It is important to note, however, that organizations are made up of numerous groups of individuals, each with its own unique cultural identity. A better definition for organizational culture could therefore be "a network of integrated subcultures" (Elsass & Veiga 1994, 433).

1.5 Limitations

As mentioned above, the concept of culture chosen for this study is the classic concept. This means that other concepts of culture (such as the social constructivist concept[1]), or theories based on them, are not included in the study (the only exception being the work of Larsson & Risberg (1998), since Larsson is thought to represent the middle ground between these two concepts – Gertsen et al. 1998, 29).

The study has not taken into account other than national and organizational levels of culture either, as these two have been perceived to be the main cultural levels affecting mergers and acquisitions. Although other levels, such as industry and business culture, have been recognized in the literature, these areas have been discussed in the context of operational

[1] For an example of a theory based on the social constructivist concept of culture, see Kleppestø (1998)

business rather than integration management (e.g. Holstius & Törnroos 1990). Different subcultures have also been acknowledged to affect mergers and acquisitions (e.g. Nahavandi and Malekzadeh 1988), but even though they are interesting, they are beyond the scope of this study.

And finally, despite the fact that the essence of cultural management in mergers and acquisitions is change management, only factors relating to purely cultural issues per se have been included in this study. In other words, issues such as the natural resistance to change experienced by people when encountering change processes (e.g. Dichter et al. 1993, Arena 2002), have not been dealt with in detail here.

2 Literature Review

The literature review will first concentrate on the cultural differences affecting mergers and acquisitions, followed by the theories explaining how these differences can have an impact on mergers and acquisitions. The literature concerning the management of cultural factors in mergers and acquisitions will be studied next, after which the section will be summarized and a theoretical framework, built according to the findings of this section, will be presented and discussed.

2.1 Cultural Differences

As can be understood from the definition of culture given above, culture is an extremely vast concept. We are surrounded by culture in our everyday lives. Cultural differences can therefore be studied from numerous different angles. For example, different languages, religions and demographic differences are all important factors determining what a culture is like and how it differs from other cultures. The cultural differences we are interested in in this study, however, are the ones that can clearly be related to an organizational context, and specifically to the outcomes of mergers and acquisitions.

2.1.1 National Cultural Differences

The study that has probably contributed the most in the field of finding clear national patterns of cultural differences is that of Hofstede (1980). In the mid-1970s, he studied a large body of survey data about the values of people in over 50 countries around the world. These people worked in the local subsidiaries of one large multinational corporation – IBM. The main finding of Hofstede's work was the fact that national cultures could be compared to each other and categorized in terms of four different dimensions – *power distance*, *individualism versus collectivism*, *femininity versus masculinity* and *uncertainty avoidance*. In other words, these dimensions form a "four-dimensional model of differences among national cultures". (Hofstede 1991, 14). Trompenaars (1993, 8) has later found very similar dimensions, basing them on the way in which members of a culture cope with relationships with other people as well as their perception towards time, and attitudes towards the environment. These dimensions will not, however, be discussed in more detail here, since they overlap so largely with Hofstede's dimensions.

Country clustering studies have also attempted to describe differences between national cultures. Ronen and Kraut (1977), utilized a secondary analysis of data from the studies by Haire et al. (1966) and Sirota and Greenwood (1971) as well as a survey study of 4000 employees of a European-based multinational electronic company in 15 countries and discovered nine country clusters (Anglo, Germanic, Nordic, Near Eastern, Arab, Far Eastern, Latin American, Latin European and Independent countries). These clusters were formed by using employee work values and attitudes as the critical variables. (Ronen 1988, 250-254, originally in Ronen & Kraut 1977[2]).

Ronen and Kraut's country clusters contain many exceptions and can be accused of over-generalization and their main role therefore lies in labeling fairly similar areas of culture and behavior. Due to this vagueness, country clustering can be judged to have limited importance in the cultural management of mergers and acquisitions. The works of Hofstede can also be criticized, especially due to the fact that the survey only included the employees of one

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[2] Ronen, S. and Kraut, A. (1977) "Similarities among countries based on employee work values and attitudes". *Columbia Journal of World Business* 12, 89-96.

multinational in identifying differences in *national* value systems. Hofstede himself defended this approach by saying that the data studied represented almost a perfectly matched study from one country to another, i.e. they were similar in all respects except nationality, which "made the national differences in their answers stand out unusually clearly"(Hofstede 1991, 13). His study can also be criticized as outdated, as it was made some 20 years ago. I, however, feel that the results are still relevant enough to form a basis of comparison between national cultures – subject, of course, to certain provisos (e.g. small differences in ranking scores presented in the study should not be used as a basis for comparisons). Furthermore, because Hofstede's work is based in an organizational context, it can be used in M&A management. The four cultural dimensions identified by Hofstede (1991), as well as examples illustrating their relevance to mergers and acquisitions will be presented next.

Power Distance

Hofstede's definition for power distance is "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede 1991, 28). Table 1 presents some key differences between small and large power distance societies as well as examples of countries at both ends of the spectrum.

Table 1: Key Differences between Small and Large Power Distance Societies

Source: Adapted from Hofstede (1991), pp. 26, 37

Small power distance	*Large power distance*
• Inequalities among people should be minimized	• Inequalities among people are both expected and desired
• Hierarchy in organizations means an inequality of roles, established for convenience	• Hierarchy in organizations reflects the existential inequality between higher-ups and lower-downs
• Decentralization is popular	• Centralization is popular
• Narrow salary range between top and bottom of organization	• Wide salary range between top and bottom of organization
• Subordinates expect to be consulted	• Subordinates expect to be told what to do
• The ideal boss is a resourceful democrat	• The ideal boss is a benevolent autocrat or good father
• Privileges and status symbols are frowned upon	• Privileges and status symbols for managers are both expected and popular
E.g. Sweden, Finland, USA, Great Britain	E.g. Asian, Arab and Latin countries (France, Brazil)

The findings of Olie's (1994) case study on a Dutch-German chemical fibre industry merger is a good example of national differences in power distance:

> The Dutch company was considered as very congenial and informal. Leadership styles were more based on participative management ideas than on autocratic decision-making. Compared to the Dutch management, the German management tended to emphasize the blue print organization, practiced autocratic management styles and was not used to questioning the policy of their superiors. In general the relationship between superior and subordinate was characterized by high formality. Use of familiar ways of address, even among colleagues, was not common practice. Decision-making, however, appeared to be much slower in the Dutch organization than in the German organization. Due to these – unexpected – contrasting attitudes towards authority and decision-making between the two management groups, positive attitudes towards the merger gradually turned into frustration and disappointment. (Olie 1994, 390).

Individualism versus Collectivism

Individualism means that everyone is expected to look after himself or herself and his or her immediate family, while in collectivist societies people are integrated from birth onwards into strong, cohesive in-groups, which "throughout people's lifetime continue to protect them in exchange for unquestioning loyalty" (Hofstede 1991, 51). See Table 2 for key differences in the individualism versus collectivism dimension.

Table 2: Key Differences between Collectivist and Individualist Societies

Source: Adapted from Hofstede (1991) pp. 53, 67, and 73

Collectivist	*Individualist*
• Identity is based in the social network to which one belongs	• Identity is based in the individual
• Collective interests prevail over individual interests	• Individual interests prevail over collective interests
• Private life is invaded by group(s)	• Everyone has a right to privacy
• Opinions are predetermined by group membership	• Everyone is expected to have a private opinion
• Relationship employer-employee is perceived in moral terms, like a family link	• Relationship employer-employee is a contract supposed to be based on mutual advantage
• Hiring and promotion decisions take employees' in-group into account	• Hiring and promotion decisions are supposed to be based on skills and rules only
• Management is management of groups	• Management is management of individuals
• Relationship prevails over task	• Task prevails over relationship
E.g. Asian and Arab countries, Japan, Spain	E.g. USA, Great Britain, Italy, Denmark

According to Cartwright and Cooper (1996), patterns of merger and acquisition activity tend to reflect managerial perceptions as to the similarity and compatibility of different national cultures. For example, given the choice, Northern European countries such as U.K., Sweden and Denmark would prefer to enter in business partnerships with other North European and American organizations, but avoid alliances with Japan and Southern Europe (e.g. Italy and Spain). This may possibly reflect their cultural orientation towards "individualism" instead of "collectivism", which is regarded as being characteristic of both Japanese and Spanish cultures. (Cartwright & Cooper 1996, 98-101).

Femininity versus Masculinity

Masculine societies are societies, in which social gender roles are clearly distinct. This means that in these societies, men are supposed to be "assertive, tough and focused on material success" whereas women are supposed to be "more modest, tender and concerned with the quality of life". In feminine societies, on the other hand, these gender roles overlap and both men and women are supposed to be modest, tender and concerned with the quality of life. (Hofstede 1991, 82-83). Table 3 presents the key differences between feminine and masculine societies.

Table 3: Key Differences between Feminine and Masculine Societies

Source: Adapted from Hofstede (1991) pp. 84, 96, 103

Feminine	*Masculine*
• Dominant values in society are caring for others and preservation	• Dominant values in society are material success and progress
• People and warm relationships are important	• Money and things are important
• Permissive society	• Corrective society
• Small and slow are beautiful	• Big and fast are beautiful
• Work in order to live	• Live in order to work
• Managers use intuition and strive for consensus	• Managers expected to be decisive and assertive
• Stress on equality, solidarity and quality of work life	• Stress on equity, competition among colleagues and performance
• Resolution of conflicts by compromise and negotiation	• Resolution of conflicts by fighting them out
E.g. Sweden, Norway, Finland, Portugal	E.g. Japan, Austria, Italy, USA

The Pharmacia-Upjohn example presented at the very beginning of this study is a good example of a clash that can result from differences between feminine and masculine cultures. The Swedes (who represent the most feminine culture according to Hofstede's studies 1991, p. 84), would not accept the "brutal" American way of implementing mergers, which meant creating a structure that permitted "tough, decisive command and top-down decision-making". Instead, they worried more about maintaining good relations among the executives from both sides. (Seiden 1999, 98).

Uncertainty Avoidance

Uncertainty avoidance is defined as "the extent to which the members of a culture feel threatened by uncertain or unknown situations" (Hofstede 1991, 113). Table 4 points out the key differences between weak and strong uncertainty avoidance societies.

Table 4: Key Differences between Weak and Strong Uncertainty Avoidance Societies

Source: Adapted from Hofstede (1991) pp. 113, 125, and 134

Weak uncertainty avoidance	*Strong uncertainty avoidance*
• Uncertainty is a normal feature of life and each day is accepted as it comes	• The uncertainty inherent in life is felt as a continuous threat which must be fought
• Low stress; subjective feeling of well-being	• High stress; subjective feeling of anxiety
• Comfortable in ambiguous situations and with unfamiliar risks	• Acceptance of familiar risks; fear of ambiguous situations and of unfamiliar risks
• Few and general laws and rules	• Many and precise laws and rules
• If rules cannot be respected, they should be changed	• If rules cannot be respected, we are sinners and should repent
• Comfortable feeling when lazy; hard-working only when needed	• Emotional need to be busy; inner urge to work hard
• Precision and punctuality have to be learned	• Precision and punctuality come naturally
• Tolerance of deviant and innovative ideas and behavior	• Suppression of deviant ideas and behavior; resistance to innovation
• Motivation by achievement and esteem or belongingness	• Motivation by security and esteem or belongingness
E.g. Singapore, Sweden, Great Britain, USA	E.g. Greece, Japan, France, Spain

An example of different practices stemming from differences in attitudes towards uncertainty (and therefore the need for written documents) is the 1998 merger between German car manufacturer Daimler-Benz and American Chrysler. This merger has been the object of extensive international attention, as the value of its shares has been falling dramatically since April 1999 and as many predict that the merger is bound to fail. Mr. Hubbert, head of Mercedes-Benz cars, explained how they did things differently at the board level:

> We Germans would prepare a 50-page document which would then be discussed at length in the board meeting. The Americans, we found, would talk one to one so that when it came to board meetings, the chairman knew what everyone thought and there was little discussion. (The Economist 1999, Sep 25, 73-74).

2.1.2 Organizational Cultural Differences

According to Olie (1990), dominant values in a national culture have a profound effect upon organizations and organizational behavior. For example, French and Italian firms tend to have strong centralized hierarchical structures in which patriarchal influence is strong. In contrast, Northern European firms, such as Dutch and German firms, are more decentralized. (Olie 1990, 210). The workplace-related examples of key differences presented in tables 1-4 above also serve to illustrate how a national culture is reflected in an organizational culture.

Organizations can, however, possess distinct cultures within the same country in terms of for example symbols (such as manners of speaking and dress habits) and social norms. For instance, IBM has a very distinct corporate identity from that of Ford or DuPont, although all three are American companies. (Olie 1990, 210).

Cartwright and Cooper (1996) have created a culture typology in order to measure cultural differences between organizations and their effects in the context of mergers and acquisitions. Although there has been some speculation on whether the typology can be used to characterize the companies involved in a sufficiently precise way (Gertsen et al. 1998, 26), it has been included in this study because it provides a good illustration of organizational differences. The typology comprises of four different types of organizational culture: power cultures, role cultures, task cultures and person cultures (Cartwright & Cooper 1996, 65).

Power cultures represent cultures, where a distinct centralization of power can be seen. These cultures often pertain to small companies with charismatic leaders. Decisions, which are often based on intuition, are made by management alone. The wage systems depend on the personal preferences of the managers and the employees are not presented with many challenges. There are two types of power cultures: patriarchal and autocratic. In patriarchal cultures, the employees feel that the leader's power is legitimate and the leader is seen as kind and protective. The employees are treated as children and not much information is passed to them. In autocratic cultures, by contrast, the power of the leader is not expressly seen as legitimate and the leader's personal commitment to the organization and employees is limited. *Role cultures*, in turn, are bureaucracies, where logic, rationality and efficiency are the driving forces. Functions are important, rather than people, and the division of labor is highly specialized. There are many rules and clear limits for work areas and authority and the prevailing hierarchy is formalized and clear to all. The primary emphasis in *task cultures* is on the actual task to be performed. The nature of the task determines how one works. An example could be a new high-tech company, where the organization is characterized by flexibility, autonomy and creativity. The tasks are challenging to the employees, but there is a risk that they may burn themselves out. And finally, a *person culture* is characterized by its egalitarian organization with a minimal structure. The growth and development of the individual is regarded as the most important factor, decisions are made collectively and all information is shared. These cultures often pertain to non-profit organizations. (Cartwright & Cooper 1996, 65).

Other studies that have attempted to measure organizational cultural differences include a study on cultural differences between top management teams engaged in a merger. The seven dimensions proposed as relevant measurements of cultural differences were: innovation and action orientation, risk-taking, lateral integration, top management contact, autonomy and decision-making, performance orientation and reward orientation. (Weber 1996, 1187). Cartwright and Cooper's (1996) typology is, however, perceived to provide a better basis for cultural comparisons as it takes into account the whole organization instead of just the top management level.

2.2 Theories on the Effect of Cultural Differences on Merger and Acquisition Performance

Cultural differences can and do have an impact in the outcomes of mergers and acquisitions. This has for example been indicated by Forstmann's (1998) empirical case study, the findings of which support the hypothesis that cultural differences can explain whether problems occur in integration or not (Forstmann 1998, 79). A recent study on the post-acquisition integration of 198 Finnish acquisitions also supports this statement (Sarala 2002, 86). The section will first go over some of the general theories in the field and then focus on the main theoretical frameworks identified from the literature. The last section under this topic is dedicated to theories illustrating the differences between the impact of cultural differences on the performance of domestic versus international mergers and acquisitions.

2.2.1 General Theories

According to Olie (1994), integrating two separate companies with different backgrounds into a single unit can often prove to be a difficult and time-consuming process. One of the reasons for this is that in a post-merger situation, the members of the organization "typically start defining the situation in antagonistic terms, of 'us' versus 'them'." This leads to power struggles as organizational groups engage in quarrels over scarce resources. In spite of formal attempts to blend or create a common culture, the original identities can be observed to persist long after the merger has started. (Olie 1994, 383).

Sales and Mirvis (1984) also identified this occurrence, and stated that when cultures collide, at first a concept of an in-group and out-group (we-they) is formed. In their studies, they found three cognitive processes that were often developed by this we-they antagonism: polarization, evaluation and ethnocentrism. *Polarization* means that people tend to highlight the contrasts between the two groups. *Evaluation*, in turn, refers to the situation where one's own group is seen as purely good and the others as purely bad. *Ethnocentrism*, according to Sales and Mirvis, means refusing to see things from other than one's own viewpoint. (Sales & Mirvis 1984, 115-116). Olie (1990), on the other hand, sees ethnocentrism as the way in which "we tend to regard activities that do not conform to our established views of doing business as abnormal and deviant" (Olie 1990, 211).

A factor that can give an indication of the extent of culture-related problems is the type of the merger. Olie (1990, 208-209) has distinguished four main types of mergers and acquisitions: conglomerate (or unrelated/portfolio) mergers, mergers (or marriages), absorptive acquisitions and redesign mergers. The characteristics of each are briefly presented next.

1. *Conglomerate mergers* are characterized by small power differentials between the two parties and a low extent of integration. In these the acquiring firm leaves the acquirer alone, changing little or nothing of its management or operations. In other words, limited control is exerted by the acquiring firm.

2. *Mergers* or *marriages* are very difficult to realize since they involve two partners of more or less equal strength, which have decided to blend their operational and managerial functions. This implies that both firms are confronted with a change of corporate identity and organizational culture. Neither of the companies has the power to impose its own structure or culture on the other, and therefore a "third culture" has to be developed. Some international examples of this type are Unilever (Dutch-English), SAS (Scandinavian countries) and ABB (Swedish-Swiss).

3. The *absorptive acquisition* is the most frequent among acquisitions. The goal in this type is to create synergy, but unlike the "marriage", there is a clear power difference between the two organizations.

4. The *redesign merger* is also characterized by a clear power differential. Although synergy is not the objective, the acquiring firm may still exert its influence and force its management methods upon the target company. This might be because the acquiring management believes it can transfer its management know-how and techniques to other (related) industries. The management of the acquired firm is often replaced. (Olie 1990, 208-209).

The four types of mergers present a rather crude classification and not all mergers can be categorized according to them. However, as stated earlier, they do give an indication of the extent and type of post-merger integration difficulties. The role of culture-related problems will be minor in unrelated mergers (type 1), while significant in cases where integration needs are high, but power differentials low (type 2). In contrast, in mergers with high power differentials (types 3 and 4), there is one dominant culture and therefore only one company is undergoing changes. (Olie 1990, 209).

Another factor that can affect the level of conflicts resulting from cultural differences is the organizational performance following a merger or an acquisition. This is due to the fact that performance improvements are often attributed to one's own group, while performance decline is attributed to the out-group. Thus, given successful post-acquisition performance, we would expect to see a reduction in the forces of cultural differentiation over time and thereby a lower level of conflicts leading to a more successful acquisition outcome. By contrast, poor performance might lead to increased forces of differentiation and thereby a higher level of tension, which may ultimately lead to acquisition failure. (Elsass & Veiga 1994, 447-448).

2.2.2 The Model of Cultural Fit

According to Cartwright and Cooper (1993), financial and strategic considerations (such as availability, price and potential economies of scale) dominate the selection of a suitable acquisition target or merger partner. Although recent studies have identified cultural issues as critical in merger success, these softer issues are still often ignored in target selection or merger planning. In other words, more emphasis is still put on the "strategic fit" rather than the "cultural fit" of the potential merger partner, although the latter should at least be of equal, if not greater, importance than the former. (Cartwright & Cooper 1993, 57).

On the basis of empirical data, Cartwright and Cooper (1996) have studied the cultural fit of a number of companies involved in mergers and acquisitions. They developed the culture typology (power, role, task & person cultures introduced in the section on organizational cultural differences), which in their opinion can be used to describe all organizations. They claim that different combinations of the types will have predictable outcomes. In order for the merger to succeed, the two organizational cultures do not necessarily, however, have to be similar, but they should be able to act together. (Cartwright & Cooper 1996, 83).

The influence of cultural distance on acquisitions and mergers is explained by Cartwright and Cooper (1996) in the following way:

Acquisitions: After its purchase, the acquired company is typically expected to adapt to the organizational culture of the acquirer, while the latter generally intends to retain its own culture. The important thing in this situation is not the difference between the cultures, but the question of the direction in which personal freedom is affected, i.e. whether the freedom of the individual is increased or decreased. If the employees feel that their freedom is increased, things will usually go well. If, on the other hand, they feel that their freedom is reduced, problems will occur. The outcome of the acquisition can thus be predicted by plotting the two companies onto a continuum that illustrates constraints on the freedom of the individual (see Figure 1). (Cartwright & Cooper 1996, 81).

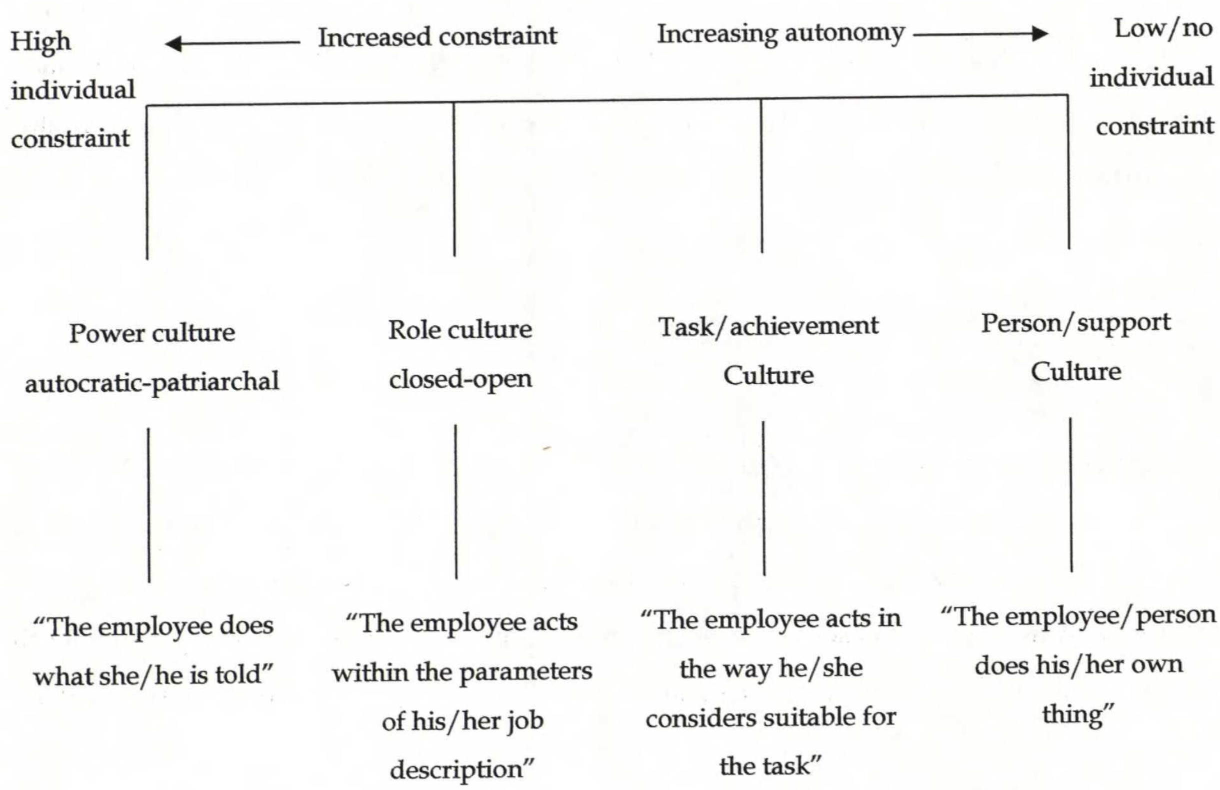

Figure 1: The Relation between Culture Types as regards Constraints on Individuals' Freedom

Source: Cartwright and Cooper (1996, 80)

Mergers: In the case of mergers, however, Cartwright and Cooper (1996) believe that the distance between the two cultures is important. This is because in mergers, both companies usually want to retain their own culture and therefore the organizational cultures should be adjoining types. (Cartwright & Cooper 1996, 82). By contrast, based on their empirical research, e.g. Olie (1994, 402) and Vaara (1999, 128-129) have noted that in the case of international mergers, cultural differences between cultures that are perceived as being 'close' are often more problematic than those between 'distant' cultures. This is due to the fact that managers tend to disregard the actual cultural differences in a setting where they assume cultural proximity (more about international vs. domestic mergers in section 2.2.4).

The main problem with Cartwright and Cooper's model is that it assumes that the freedom of the individual is always a desired element. In some cultures, however, employees do not appreciate increased freedom or responsibilities, because it increases the level of their anxiety and make them feel insecure. They expect to be told what to do, and feel comfortable in that setting. In Hofstede's (1991) terms, these cultures would rank high on both the power distance and the uncertainty avoidance dimensions. Examples of such countries include both Latin American (Brazil, Chile) and Latin European (France, Portugal) countries (Hofstede 1991, 26, 113).

2.2.3 Acculturation

Acculturation in its anthropological sense results from two autonomous cultures coming together and requires change in one or the other cultural group. Although, theoretically, it is possible that acculturation results in a balanced merging of two groups, according to anthropological studies, this seldom happens. Instead, members of one group often attempt to dominate members of the other. (Elsass and Veiga 1994, 433-434, originally in Berry 1980[3]).

Anthropological theories of acculturation have been used to describe the blending of two organizational cultures (e.g. Buono et al. 1985, Nahavandi & Malekzadeh 1988). Nahavandi

[3] Berry, J.W. (1980) "Acculturation as varieties of adaptation", in: A.M. Padilla (ed.), *Acculturation. Theory, models and some new findings*. Westview Press, Boulder, Colorado.

and Malekzadeh (1988, 81-82), however, noted differences between anthropological and organizational acculturation. In particular, organizational members can choose not to accept the culture of the other organization by simply leaving the organization, while individuals experiencing social acculturation do not usually have this choice.

The four modes identified by Berry (1980) through which acculturation takes place are: assimilation, integration, rejection and deculturation. In short, *assimilation* means that the least powerful group gives up or loses its culture and is absorbed by the dominant group. *Integration*, in turn, means that the non-dominant group maintains its cultural integrity, but becomes at the same time an integral part of the dominant culture. *Rejection* means that the non-dominant group withdraws from the dominant culture. And finally, *deculturation* occurs when the non-dominant group loses cultural and psychological contact with both its own original culture and the dominant culture. (Gertsen et al. 1998, 22, originally in Berry 1980).

Nahavandi and Malekzadeh have taken Berry's conceptual system further to develop models for the types of cultural adaptation process preferred by the acquired and the acquiring company (i.e. the non-dominant and the dominant culture). Their work has been widely referred to in literature on cultural dimensions of mergers and acquisitions (e.g. Cartwright & Cooper 1993, Olie 1994, Elsass & Veiga 1994, Gertsen et al. 1998). Their work will now be presented in broad outline.

<u>Preferred Types of Adaptation Process and the Acculturative Model</u>

In acquisition terms, the four modes of acculturation presented above are:

- Integration: the acquired firm is being fitted into the acquiring firm, but differences are largely tolerated.
- Assimilation: the acquired firm conforms completely to the acquirer's culture.
- Separation: cooperation is abandoned and a structure is found that enables the two cultures to live completely separately.
- Deculturation: the acquired firm is likely to disintegrate as members of the acquired firm do not value their own culture or want to be assimilated into the acquiring company. (Nahavandi & Malekzadeh 1988, 82-83).

The factors that determine the preferred mode of acculturation are:

1. In the case of the *acquired company*, the degree to which the members want to preserve their own culture and organizational practices and the degree to which they are willing to adopt the acquirer's culture (see Figure 2).

2. In the case of the *acquirer*, the degree to which the firm is multicultural (i.e. the degree to which it values cultural diversity) and the diversification strategy regarding the type of merger (or the degree of relatedness between the acquirer and the acquired firms) (see Figure 3). The latter factor is closely related to Olie's (1990) merger types discussed earlier.

How much do members of the acquired firm value preservation of their own culture?

Perception of the attractiveness of the acquirer		Very much	Not at all
	Very attractive	Integration	Assimilation
	Not at all attractive	Separation	Deculturation

Figure 2: The Acquired Firm's Preferred Adaptation Process

Source: Nahavandi and Malekzadeh (1988, 83)

Culture:

Degree of Multiculturalism

Diversification Strategy: Degree of Relatedness of Firms		Multicultural	Unicultural
	Related	Integration	Assimilation
	Unrelated	Separation	Deculturation

Figure 3: The Acquiring Firm's Preferred Adaptation Process

Source: Nahavandi and Malekzadeh (1988, 84)

The basic claim of Nahavandi's and Malekzadeh's (1988) acculturative model for the implementation of mergers (see Figure 4) is that given that the members of the two organizations may not have the same preferences for the mode of acculturation, the degree of agreement (or congruence) between the preferences of the acquirer and the acquired will be a central factor in the successful implementation of the merger. If there is congruence regarding the preferred mode of acculturation, minimal acculturative stress will result and the mode of acculturation triggered by the contact between the two firms will facilitate the implementation of the merger. If, on the other hand, there is incongruence, a high degree of acculturative stress will result, which may lead to problems. (Nahavandi & Malekzadeh 1988, 84-87). The managerial implications of the model will be discussed in section 2.3.

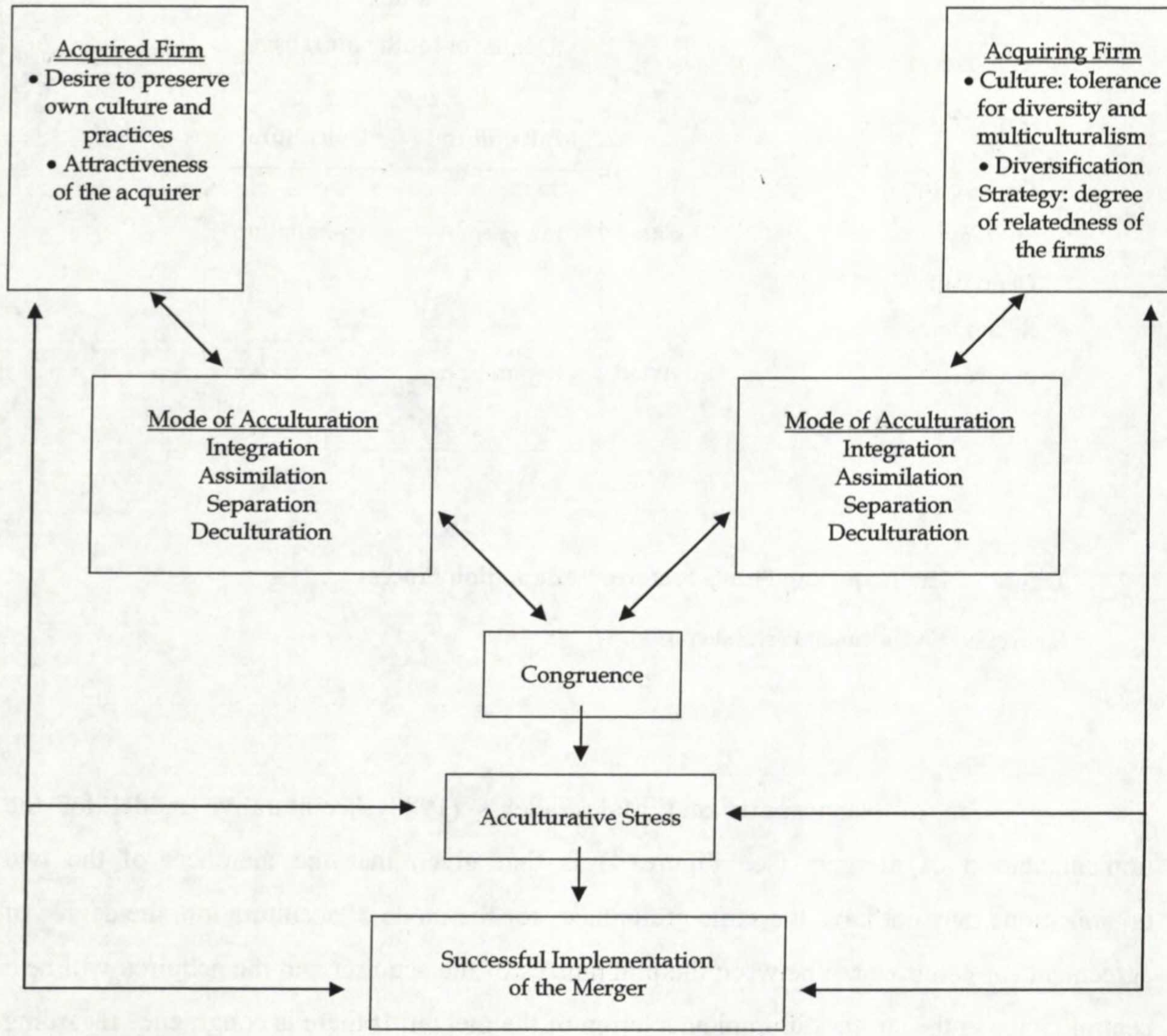

Figure 4: Acculturative Model for the Implementation of Mergers

Source: Nahavandi and Malekzadeh (1988, 85)

A Force-Field Analysis of Acculturation

Elsass and Veiga (1994) have taken Nahavandi's and Malekzadeh's work a step further. They argue that organizational acculturation can be described in terms of a dynamic interaction between opposing forces of cultural differentiation (i.e. the desire of groups to maintain their separate cultural identity) and organizational integration (the organizational need for cultural groups to work together). Applying Lewin's (1951) theory of quasi-stationary equilibrium to the acculturative process, the forces of cultural differentiation can be viewed as restraining forces because they prevent the blending of two separate cultural groups, while the forces of organizational integration are seen as driving forces because they serve to create an integrated whole from the two groups. (Elsass & Veiga 1994, 435).

The interaction of these forces results in a state of equilibrium, or what Nahavandi and Malekzadeh (1988) refer to as the acculturation mode. An equilibrium established between weak forces, or a "low tension" system, tends to be "more flexible and accommodating", i.e. conflict levels are low. In contrast, an equilibrium between strong forces, a "high tension" system, tends to be "rigid, unyielding and potentially more explosive", thus conflict levels are likely to be high (see Figure 5).

Elsass and Veiga's (1994) descriptions of the four acculturative modes are, in brief, the following:

1. Deculturation: Members of the acquired firm have no desire to maintain a separate identity and the acquiring firm has no need to impose its culture on them. Members of the acquired firm no longer maintain their original cultural identity, but do not replace it with a new identity. Individuals are not heavily influenced by either culture. This mode may be defined as a low tension system.

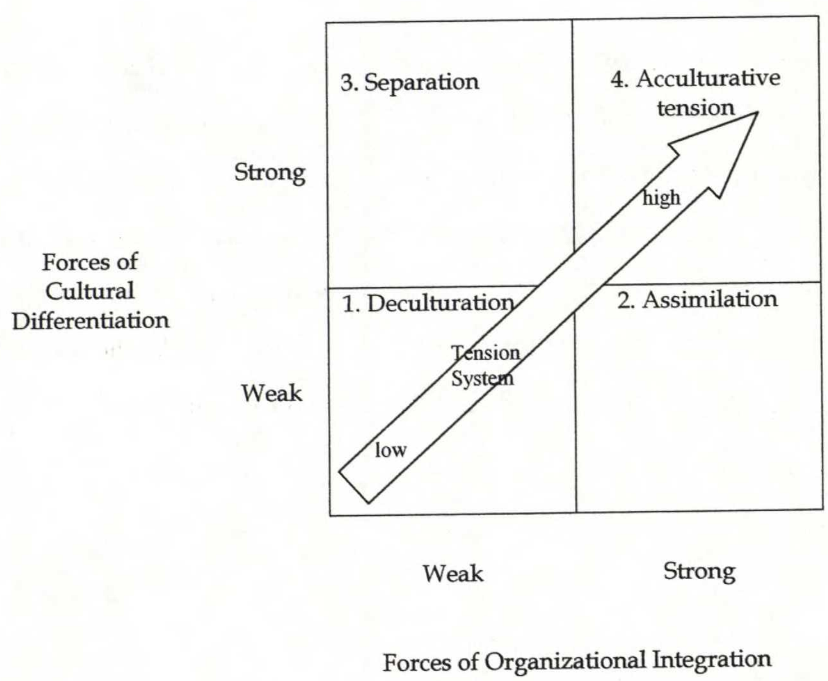

Figure 5: The Four Archetypal Modes of Acculturation

Source: Elsass and Veiga (1994, 436)

2. Assimilation: Strong driving forces of organizational integration exist, interacting with weaker restraining forces of cultural differentiation. The acquired group is assimilated into the larger organization. There is a low level of conflict strongly favoring organizational integration and tension experienced by organizational members is moderate.
3. Separation: Strong restraining forces of cultural differentiation exist, interacting with weaker organizational integration forces. Each group retains its old cultural identity. The level of tension is moderate.
4. Acculturative Tension: Equally strong forces of cultural differentiation and organizational integration exist, and the outcome is likely to be a state of high acculturative tension. The two groups are stalemated and individuals caught up in this mode are likely to experience high levels of stress, tension and/or anger. Attempts to introduce cultural change may be met with strong resistance or conflict. (Elsass & Veiga 1994, 436-437).

The model of acculturative dynamics illustrates how the forces of cultural differentiation and organizational integration influence, and are affected by, organizational performance (see Figure 6). The forces of cultural differentiation and organizational integration act upon group members simultaneously. The strength of the forces affects the degree of acculturative conflict experienced by organizational members. Over time, organizational performance will then be inversely related to the level of acculturative conflict following the acquisition and will influence the forces of cultural differentiation and organizational integration. (Elsass & Veiga 1994, 439).

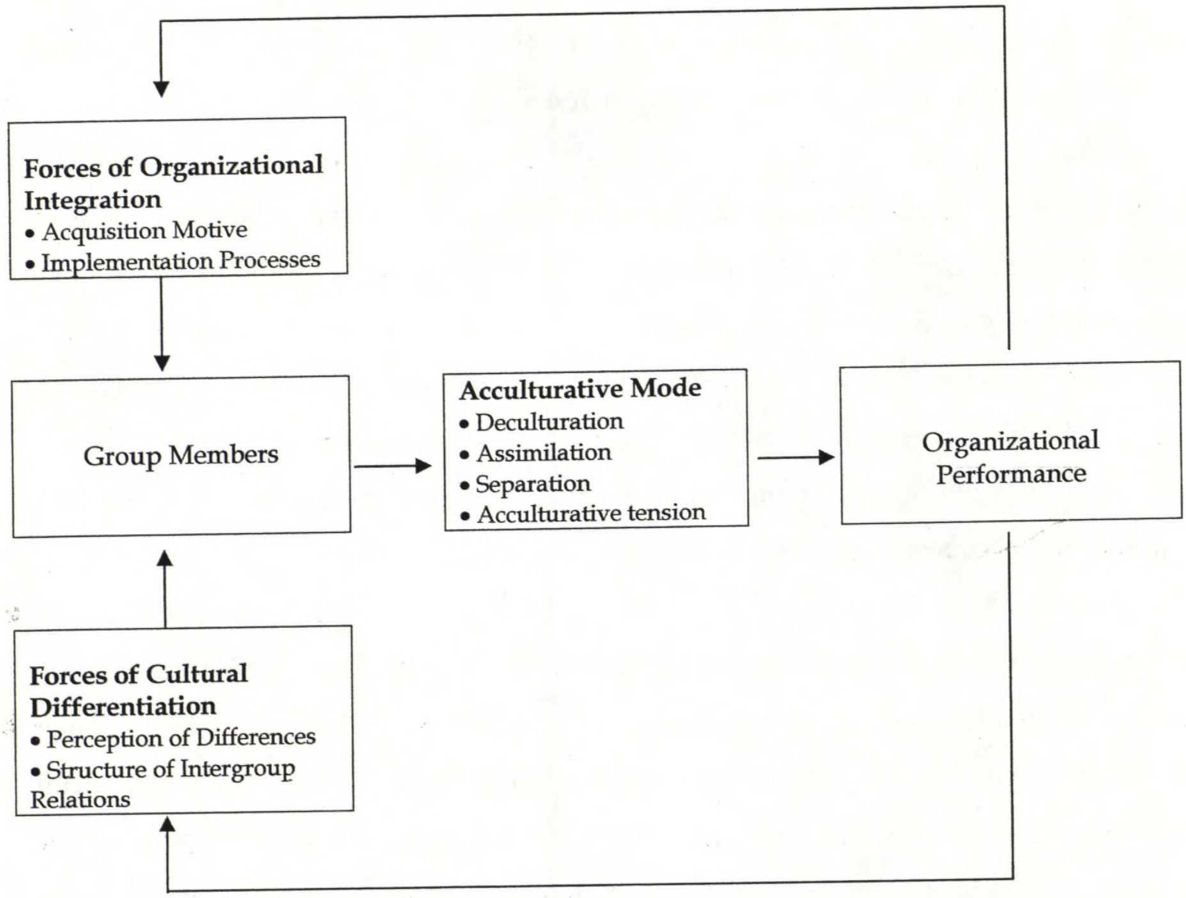

Figure 6: A Model of Acculturative Dynamics

Source: Elsass and Veiga (1994, 440)

When comparing this model with Nahavandi and Malekzadeh's (1988) acculturative model presented in Figure 4, one can conclude that they are very similar. The main difference, however, is the fact that the model of acculturative dynamics, as can be inferred from its name, sees acculturation as a dynamic process rather than an outcome. Due to this difference, the *integration* mode presented by Nahavandi and Malekzadeh (1988) is not included in Elsass and Veiga's (1994) model, as they see it as a process of change attempt rather than a mode experienced after the initial encounter between cultural groups, or at the beginning of the acculturation process. Instead of *integration*, they present *acculturative tension* as an early acculturation mode. They argue that it is a "plausible state" and that it is consistent with Lewin's (1951) quasi-stationery equilibrium theory. As mentioned earlier, this theory suggests that acculturation modes should be viewed as dynamic balances between the opposing forces of cultural differentiation and organizational integration. Therefore, if the balance of the forces changes in some way, equilibrium in the system will shift so that conflict may increase or decrease, resulting in a new mode of acculturation. (Elsass & Veiga 1994, 438).

Nahavandi's and Malekzadeh's (1988) model's main point is that a lack of agreement between the preferences of the acquirer and the acquired regarding the acculturation mode may result in problems. Elsass and Veiga's (1994) model, on the other hand, is a better illustration of the forces that influence the outcome of acculturation. Therefore, even though the use of the term *acculturative tension* is somewhat confusing and needs explanation as given above, it seems to be a more valid tool in predicting the outcome of mergers and acquisitions than Nahavandi and Malekzadeh's (1988) model.

Comparing the two acculturation models above with Olie's (1994) 'us vs. them' antagonism (or the in-group/out-group concept of Sales and Mirvis 1984) as well as Olie's (1990) merger types, one can conclude that the latter are actually factors in the former. The 'us vs. them' antagonism can be identified as a factor affecting both the perception of differences and the structure of intergroup relations in the forces of cultural differentiation (Elsass & Veiga 1994), while the merger types are related to the dimension of the relatedness of the firms in Nahavandi and Malekzadeh's (1988) model as well as to the acquisition motive in the forces of organizational intergration (Elsass & Veiga 1994).

2.2.4 Domestic versus International Mergers and Acquisitions

The theories on the effects of cultural differences on merger and acquisition performance presented above have been developed primarily based on domestic mergers and acquisitions. Although they are, for the most part, relevant for both the domestic as well as the international context, some significant differences also exist. Despite the fact that mergers and acquisitions became the dominant mode of internationalization in the 1990's, empirical studies on international mergers and acquisitions remain relatively rare. This may be due to the difficulties of obtaining large samples from multiple countries. (E.g. Cartwright & Cooper 1993, Weber et al. 1996, Larsson & Risberg 1998).

In general, it is believed that international mergers are more troublesome than domestic ones, because national cultures are more central to a group's identity and view of reality than organizational cultures, and therefore will not be given up easily (Olie 1990, 210). Another reason is that cross-cultural communication creates challenges of its own, because different cultural encoding and decoding can lead to misunderstandings between persons of different nationalities (Larsson & Risberg 1998, 44). The fact that it takes longer to communicate between people of different languages makes international merger processes longer than domestic ones (Solomon 1998, 17).

According to Olie (1990), there is a big difference between international acquisitions and international mergers. In foreign takeovers, potential cultural conflicts will be solved through the bargaining power of the dominant partner. In international mergers, however, where the partners are roughly of equal size, it is more difficult to solve cultural conflicts. There is no "home culture" available that could provide a frame of reference and therefore a "third culture" has to be developed. (Olie 1990, 210). The same applies to mergers (or "marriages") between domestic partners of equal strength, as was discussed earlier.

On the basis of research on national cultures (such as Hofstede's work presented earlier), it can be argued that some cultures can be more easily combined than others (Olie 1990, 210). Larsson and Risberg (1998), however, noted that the requirement of cultural similarity may be difficult to fulfill in cross-border mergers and acquisitions due to two factors. First of all, the requirement would limit potential expansion markets severely and secondly, although the two countries in comparison may seem culturally similar, the similarity might only be superficial. The actual existing differences may then create more difficulties than if the company had identified and understood them from the start. (Larsson & Risberg 1998, 43-44). In his study on Finnish-Swedish mergers, in other words mergers between supposedly 'close' cultures, Vaara (1999, 128-129) also recognizes this "paradox of cultural proximity".

In their study on national versus corporate cultural issues, Larsson and Risberg (1998) assumed that cross-border mergers and acquisitions would run into "dual culture clashes", i.e. culture clashes both at the corporate and societal levels. They were surprised, however, to find that cross-border mergers and acquisitions in their sample were actually more successful ("had higher synergy realization") than the domestic mergers and acquisitions. They attributed this finding to the fact that the level of cultural awareness is higher in cross-border mergers and acquisitions, which, in turn, may lead to greater efforts to bring about acculturation than in domestic mergers and acquisitions, where the cultural issues tend to be taken more for granted. (Larsson & Risberg 1998, 47-49). This view is shared by the findings of Weber et al.'s (1996) studies. They found that in international mergers, "people expect differences and the changes related to those differences, and therefore are less likely to resist them" (Weber et al. 1996, 1223).

Morosini et al.'s (1998) empirical studies on cross-border acquisitions involving Italian companies also found that cross-border acquisitions in more culturally distant countries have succeeded better than in culturally more similar countries. They attributed this finding to the fact that "cross-border acquisitions in more culturally distant countries might provide a mechanism for multinational companies to access diverse routines and repertoires, which have the potential to enhance the combined firm's performance over time" (Morosini et al. 1998, 158).

Weber et al.'s (1996) objective was also to study the differences in the impact of national versus organizational cultural differences on performance in international mergers and acquisitions. They found that in the cross-border mergers, national cultural differences predicted stress, negative attitudes towards the merger and actual cooperation better than corporate cultural differences did. The findings of their study also suggested, however, that both national and corporate cultures are essential factors determining merger outcomes. (Weber et al. 1996, 1225). Both Weber et al. (1996) and Larsson and Risberg (1998) admit that the findings of their studies discussed above are at an exploratory stage, and further research would therefore be needed to confirm them.

2.3 Management of Cultural Factors in International Mergers and Acquisitions

As M&A activity has slowed (as explained in the introduction), leading companies worldwide are reassessing the way they handle the management of mergers and acquisitions in order to improve their chances of succeeding in the deals they do make. Recent M&A trends, such as the global nature and the increased complexity of even small to mid-sized deals, are making M&A process improvement a necessity for companies if they wish to succeed in these ventures. (Holubec et al. 2002, 24).

The numerous articles and books that have been written lately on mergers and acquisitions propose a wide range of solutions on how to cope with cultural differences in order to achieve positive outcomes. This section will first go through the managerial implications proposed by the authors of the main theories presented in the previous sections, in other words Olie, Cartwright & Cooper, Nahavandi & Malekzadeh and Elsass & Veiga, as well as articles either supporting or contradicting these proposals. It will then present the recommendations provided by other recent articles in a nutshell and finish off with a study on GE Capital Services by Ashkenas et al. (1998), which is perceived to provide a valuable example on the management of cultural integration.

Olie (1994) bases his propositions concerning the management of cultural diversity on Hofstede's (1980) reflection that when two organizational groups merge, a viable new organization can only be created through the development of a strong organizational subculture or common identity. Identification with a new organization often takes place through common experiences, and therefore the management needs to remove symbols of previous identities and replace them by new identification symbols in order to define a new category in which both groups can psychologically be merged. One of these symbols is the appointment of leaders that can symbolize the new identity. In an international merger, such a person should be acceptable to both sides and preferably be bicultural. Other symbols include corporate names, the location of head office and board membership, which all tend to be very sensitive issues in international mergers since they define the perceived nationality of an organization. (Olie 1994, 386-387).

Other tactics aiming at reducing the conflicts resulting from the 'us' versus 'them' thinking are to make the two sides aware of a common set of goals or interests as well as the "creation of overlapping memberships". This latter means that people may belong to different groups, such as national groups, yet share common identities in other respects, such as being part of the same task force. Overlapping memberships can be achieved through e.g. common management programs or the exchange and rotation of management groups. (Olie 1994, 387).

Cartwright and Cooper (1993), the developers of the model of cultural fit, unsurprisingly recommend that managers should make some cultural assessment of the target acquisition company or merger partner in order to determine whether they are culturally compatible. They maintain that the results of a culture audit of a potential or recently acquired organization is valuable information not only for partner selection, but also for long-term management. The culture audit could be performed by e.g. inviting employees of the acquired company or both merger partners to participate in a series of focus group meetings or a questionnaire survey, which have been specifically designed to assess current cultural attitudes and post-combination expectations. (Cartwright & Cooper 1993, 64).

Weber et al. (1996, 1225) agree with Cartwright and Cooper (1993) and propose that management should pay at least as much attention to cultural fit during both the pre-merger search process and the post-merger integration as it does to strategic fit. Erkkila (2001) agrees as well, and states that "if the vision of the newly merged company's future and the strategy for reaching this vision contrast considerably with either organization's culture, the change process to implement the strategy will be lengthy and difficult. Culture is always stronger than change." (Erkkilä 2001, 53). She also presents an example of how to measure and compare the organizational cultures of the acquirer and the acquired (see Erkkilä 2001, 59-63). Whalen (2002) also stresses the importance of cultural fit, and proposes that the due diligence process of the deal should be broadened to look for possible cultural conflicts (Whalen 2002, 6).

By contrast, as explained earlier, Larsson and Risberg (1998) do not see the issue of cultural fit as critical in international mergers and acquisitions. They maintain that "instead of sacrificing possibly valuable strategic complementarities, such as new geographical market opportunities, in the search for cultural similarities, firms may benefit more from becoming aware of and learning to manage cultural differences". (Larsson & Risberg 1998, 52).

The main managerial implication of Nahavandi's and Malekzadeh's (1988) acculturative model is not to focus on the acquirer's objectives and strategies at the expense of the role of the acquired company, as this will most likely result in active resistance on its part. Many problems associated with post-merger integration could, in other words, be avoided or managed if the two firms involved agreed on the mode of acculturation. The model also implies that the similarity of the two firms does not necessarily guarantee success. So instead of seeking cultural similarity, managers should rather agree on the choices of acculturation. Another implication is the fact that because organizations typically comprise of several different subcultures, acculturation in the organization can vary between these subcultures.

Managers therefore need to understand the various subcultures and the fact that each may need to be managed separately. (Nahavandi & Malekzadeh 1988, 86).

The main managerial implication presented by Elsass and Veiga (1994) in their study on a force-field perspective of acculturation is the fact that the post-merger change can best be achieved through the removal of restraining forces, rather than the addition of driving forces. In other words, managers should "focus on minimizing the forces of cultural differentiation through effective organizational integration mechanisms". (Elsass & Veiga 1994, 451).

The recommendations for the management of cultural factors found in recent merger and acquisition articles and books vary from the advice to hire consultants to detailed guidelines on how the whole culture change process should be managed (see an older, but comprehensive example of the latter in Table 5). The key word found in almost all of these articles, however, is communication (e.g. Ashkenas et al. 1998, Solomon 1998, Daniel 1999, Gitelson 2001, Krell 2001, Erkkila 2001). Effective communication not only plays an important role in reducing employee resistance, but is also one of the most effective ways to gain employee acceptance (Troiano 1999, 6). After the announcement of the merger, the top management has often been engaged in the merger and acquisition planning process for months and does therefore not always realize that the employees of the company are only just beginning to get used to the idea of the merger (Staff Reports 1999, 1). Communication is essential to succeed in involving everyone in the merger process and reducing the feelings of uncertainty and insecurity among the employees (Solomon 1998, 16-17).

Table 5: Guidelines for the Management of Culture Change

Source: Adapted from Croft (1990, 19-20)

How should culture change be managed?	Practical Ways to Manage Culture Change
1. Recognize that peer group consensus will be the major influence on acceptance and willingness to change. Consensus-building processes are a major way to induce change in organizations. 2. Convey and emphasize two-way trust in all matters (and especially communication) related to change. Openness and trust in the change process influence whether and how change occurs. 3. Think of change as skill building and concentrate on training as part of the change process. Even if people understand and accept change, the lack of skills and ability to carry out a new plan is a major impediment to successful change. 4. Allow enough time for the change to take place. People require a lot of time to grow accustomed to any non-trivial change. There is no substitute for this time. 5. Encourage people to adapt the basic idea for the change to fit the real world around them. The most successful cultural change is that which is modified and adapted in thousands of ways by people in the organization to accommodate the unique circumstances affecting them daily. Be flexible.	1. Give cultural change as much attention as any other top priority task. Put culture at the center of the agenda, not in the "get to it as soon as possible" category. Make sure middle management understands the company's cultural objectives. 2. Look for ways to reach into the organization to establish the importance of culture and its chosen values. Contact as many people as possible in the organization to explain and generate support devices, such as meetings, contests, awards and other personal recognition, to focus attention on culture and key values.

Whalen (2002), however, argues that the role of communication has been overemphasized in mergers and acquisitions. She states that although frequent and thorough communication is important, it cannot overcome fundamental problems such as a poorly implemented due diligence process, poor initial planning or a lack of understanding of how the merger will add value to their customers. (Whalen 2002, 6). In other words, communication is important, but it is just one of the tools needed in successfully managing the merger or acquisition.

Another critical factor in the management of mergers and acquisitions that has been found in most articles and books is strong leadership (e.g. Hitt et al. 2001, Krell 2001, Clemente 2001, Erkkila 2001). According to these articles, the CEO and the top management of the newly merged company should, amongst other things, stay visible after the deal has been announced, quickly establish the company's vision and values, engage in interaction with the employees and actively shape the culture of the new company. This is in accordance with Olie's (1994) arguments on identification symbols presented earlier, as well as Feldman and Spratt (1999), who suggest appointing role models to help in building the new culture. These role models act as examples of the desired behaviors and they should be given widespread recognition, so that it becomes clear that these behaviors are desired and rewarded in the company. They should be selected carefully, because as Feldman and Spratt put it, "it is difficult for employees to be receptive to culture change if the organization is dominated by role models who engage in behaviors that are inconsistent with its declared values". (Feldman & Spratt 1999, 158).

<u>Example: GE Capital Services</u>

GE Capital assimilated more than 100 acquisitions in the years 1993-1998 alone and therefore can be recognized to have substantial experience in the area. In the melding of different cultures, GE Capital has identified the effectiveness of the following activities: First of all, after the deal has been closed, the GE Capital business leader and the acquisition manager organize orientation and planning sessions for the members of the management team of the new acquisition and their counterparts in GE Capital. The purpose of these sessions is to develop a 100-day plan for acquisition integration, but in addition to the plan, these sessions allow both sides to get acquainted and exchange information and share their feelings and reactions about the acquisition as a whole. Secondly, a communication plan is created during the due diligence and negotiation phases of the merger. The communication, which is seen as vital in the success of the merger, is then handled as an ongoing process. It requires not only the sharing of information bulletins, but also the creation of forums of dialogue and interaction to be able to reduce cultural conflicts between the acquirer and the acquired. (Askenas et al. 1998, 174-175).

In cross-border acquisitions, GE Capital has recognized the need for a more careful analysis on cultural differences. Therefore, with the help of a consulting firm, it has developed a systematic process of cross-cultural analysis, leading up to a structured three-day "cultural workout" session between GE Capital and the newly acquired management team. Finally, GE Capital has taken a "work in progress" view of its acquisition activities. It has mapped out all of its integration processes since 1989 and identified the best integration practices and developed a set of model approaches, which are available to all its business leaders. (Ashkenas et al. 1998, 176-178).

2.4 Summary and Theoretical Framework

This segment of the study has attempted to give the reader an overview of the literature on the cultural factors affecting the outcomes of mergers and acquisitions. The first section of the review presented the types of cultural differences that have been identified to play a role in an organizational context, and therefore also in the context of merger and acquisition performance. The main emphasis of the section on national cultural differences was on Hofstede's (1991) cultural dimensions. Cartwright and Cooper's (1996) culture typology was presented as the main illustration of organizational cultural differences.

The second part of the review comprised of the main theories and theoretical frameworks on the way in which cultural differences may affect the outcomes of mergers and acquisitions. The general theories included thoughts presented by e.g. Olie (1994 and 1990) ('us' versus 'them' and the different types of mergers) as well as Elsass and Veiga (1994) (the effect of post-merger performance on the level of conflicts). The main theoretical frameworks presented were Cartwright's and Cooper's (1996) model of cultural fit, Nahavandi and Malekzadeh's (1988) acculturation theories as well as Elsass and Veiga's (1994) force-field perspective of acculturation. The distinctions between the effects of cultural differences on international and domestic mergers were also presented, mainly following the findings of Larsson and Risberg (1998), Weber et al. (1996) and Morosini et al (1998).

The last part of the review gave an overview of the managerial implications of the main theories presented previously as well as recommendations from recent articles on how to successfully manage cultural differences in mergers and acquisitions. The study on GE Capital was provided as an example of the measures taken to manage cultural integration by a company with extensive experience in acquisitions.

To illustrate the relationships between the main findings of the review, a framework linking the determinants of merger or acquisition performance with the merger or acquisition process will now be presented and discussed. The determinants comprise of the cultural differences between the merging partners, and the way in which they affect organizational performance, as well as the proposed measures of managing the cultural aspects of mergers and acquisitions. This framework will then be used as the basis for the ensuing empirical study. The purpose of the framework is, in other words, to organize the variables and the presumed relationships among them in a graphical form in order to explain what will be studied, as suggested by Miles and Huberman (1994, 18).

The acquisition/merger process used in the framework is adapted from the acquisition processes presented by Haspeslagh and Jemison (1992, 12-13). Although their book is on acquisitions only, and not mergers, the process is basically the same for both the activities (practically the same phases have been listed by e.g. Gertsen et al. 1998, 18 and Daniel 1999, 20). The typical phases of the process, or the "conventional view of acquisitions" (Haspeslagh & Jemison 1992, 12-13), is depicted in Figure 7. These phases can further be combined and linked to organizational performance as shown in Figure 8.

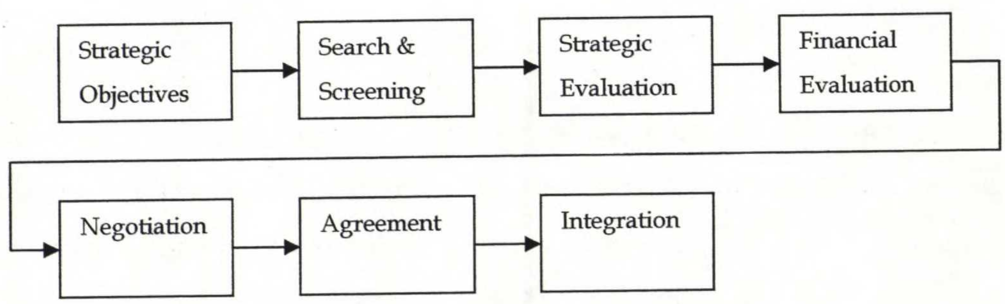

Figure 7: Conventional View of Acquisitions

Source: Haspeslagh and Jemison (1992, 13)

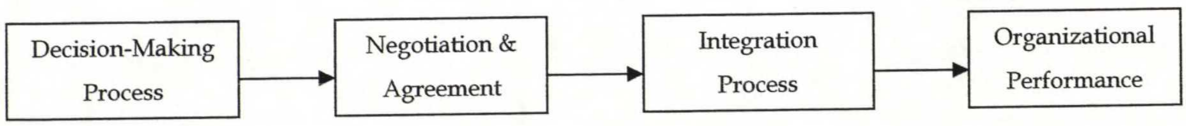

Figure 8: The Merger/Acquisition Process

Source: Adapted from Haspeslagh and Jemison (1992, 12)

Figure 9 on page 39 presents a framework of the cultural determinants of performance in mergers and acquisitions by synthesizing the findings of the review. The framework is based on international mergers and acquisitions, but the differences between the domestic and the international setting will be pointed out in the following discussion.

According to the findings of Weber et al. (1996, 1225) national cultural differences play a more important role in international mergers and acquisitions than organizational cultural differences do, as depicted by the size difference of these variables in Figure 9. By contrast, in domestic mergers, where the merger takes place between firms of the same nationality, national cultural differences do not play a major role. However, as an increasing number of companies are becoming multinational, the workforce of the companies is often diversified and different national cultural backgrounds do affect the merger process in a domestic setting as well.

The cultural differences impact the merger process through the different theories presented in this study. The theories (see pages 16-30) have not been connected to any specific phase of the process in the figure, as they can be thought to affect each one of the phases to some extent. For example, the 'us' versus 'them' antagonism already plays a role in the decision-making and negotiation phases as the managers of the two firms get together and plan the merger or acquisition. In the integration phase, the antagonism is usually spread wider into the organization to touch the workforce as a whole. Another example is the cultural fit: it can be an important factor in the decision-making process when determining whether or not a potential partner is suitable, i.e. whether the cultures are adjoining types. On the other hand, the actual degree of cultural fit can seriously affect the integration process if, as implied by the theory, the workforce perceives to be under increased constraint after an acquisition (Cartwright and Cooper 1996, 81-83).

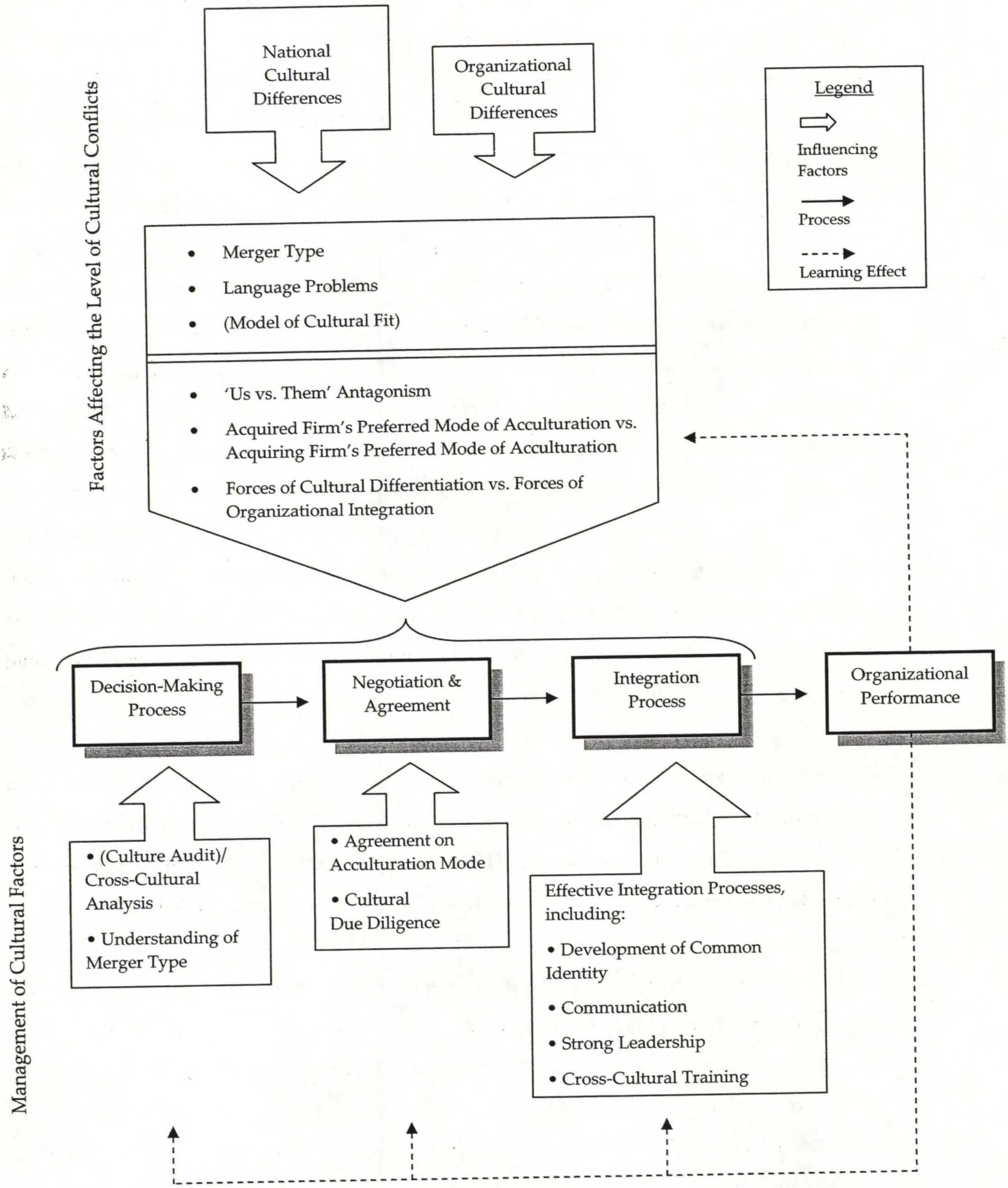

Figure 9: Cultural Determinants of Performance in Mergers and Acquisitions

The reason the model of cultural fit is presented in parenthesis in Figure 9 is the fact that its importance in international mergers and acquisitions can be argued as was pointed out earlier (e.g. Larsson & Risberg 1998, 43-44 & Vaara 1999, 128-129). Language problems in Figure 9 not only pertain to the problems arising from the differences between national languages discussed earlier (Larsson & Risberg 1998, 44 and Solomon 1998, 17), but also to problems from possible differences between the professional languages used by the merging partners.

The balancing side of the figure is the management of the cultural factors. As recommended by Cartwright and Cooper (1993, 64), the authors of the model of cultural fit, the decision-making process should include a culture audit in order to determine the cultural fit of the two companies involved. In an international setting, as explained above, this can be argued and therefore, instead of a culture audit, a cross-cultural analysis is proposed. Although this recommendation has been derived from the GE Capital example (Ashkenas et al. 1998, 174-175), it is also in accordance with Larsson and Risberg (1998, 52), who emphasize the importance of cultural awareness. The merging companies should also have an understanding of the type of merger they are potentially creating, as it will affect the level of possible cultural conflicts later on, as well as give an indication on how the integration process should be handled (Olie 1990, 208-209).

The negotiation and agreement phase was left separate from the decision-making process in order to highlight the importance of the two partners agreeing on the mode of acculturation as implied by Nahavandi and Malekzadeh (1988, 84-86) as well as to reflect the proposition of broadening the due diligence process to include cultural considerations (Whalen 2002, 6).

The first recommendation concerning the management of the cultural integration process is the creation of effective integration processes, as proposed by Elsass and Veiga (1994, 451). They maintained that this would be the measure by which the restraining forces of cultural differentiation could be minimized. They did not explicitly point out what the effective integration processes involved, but in this framework, it is assumed that they comprise of all the recommendations regarding the management of the integration process identified earlier (such as consensus-building, openness, allocation of sufficient time and prioritization of the integration process – Croft 1990, 19-20).

The issues specifically listed under effective integration processes in the figure include the development of a common identity, which, according to Olie (1990, 386-387), is an important factor in reducing the conflicts resulting from the 'us' versus 'them' antagonism. Communication is also specifically mentioned, because its crucial role in integration management was emphasized in most of the recent merger and acquisition articles (e.g. Ashkenas et al. 1998, Solomon 1998, Daniel 1999, and Troiano 1999). Strong leadership has also been listed, since its significance was highlighted as well (e.g. Hitt et al. 2001, Krell 2001, Clemente 2001, Erkkila 2001). Cross-cultural training (as proposed by Croft 1990, 19-20) has been added to the figure to demonstrate its importance in the reduction of the 'us' versus 'them' antagonism specifically in international mergers and acquisitions.

The final outcome of the merger or acquisition can be assessed after the integration process has taken place. The post-merger organizational performance will, in turn, influence the factors affecting the level of cultural conflicts in subsequent mergers or acquisitions (as depicted by the dashed arrows in Figure 9). As proposed by Elsass and Veiga (1994, 447-448), the post-merger or post-acquisition performance will have an effect on the forces of cultural differentiation (i.e. the perception of differences and the structure of intergroup relations, in this case in the acquiring party, since we are focusing on subsequent mergers and acquisitions concerning another acquired party) and the forces of organizational integration (the acquisition motive and the implementation processes of the acquirer). In other words, the better the performance, the weaker the restraining forces of cultural differentiation (from the acquirer's side) and the stronger the driving forces of organizational integration. Olie's (1990) 'us' versus 'them' antagonism reflects the same issue as Elsass and Veiga's (1994) structure of intergroup relations, and it can thus be said that the post-merger performance will also affect the level of this antagonism (the better the performance, the lower the feelings of antagonism in the acquiring party will become, facilitating the following acquisitions).

The outcome of the merger or acquisition will also have an effect on the acculturation mode preferences of the acquirer (Nahavandi & Malekzadeh 1988, 84-86). This is because the performance following the merger will affect the acquirer's tolerance for multiculturalism and its diversification strategy in subsequent mergers and acquisitions. Although Nahavandi and Malekzadeh (1988) claimed that the post-merger performance will also affect the preferred mode of the acquired party, the organizational performance in this framework is again linked to subsequent mergers or acquisitions, i.e. a situation concerning a new acquired party. Therefore the change in the acquired party is not relevant in this framework. The only issues in the figure that cannot be said to be directly affected by the post-merger performance, and are thereby separated in Figure 9 by a double line from the issues discussed above, are the type of the merger and the degree of cultural fit (as the partner will be different in the subsequent merger or acquisition) and the possible language problems, which can only be solved indirectly through language training.

The reason the post-merger organizational performance has been linked to the management side in Figure 9 is the recommendation derived from the GE Capital example presented earlier. This recommendation is the fact that a merger process should be seen as a "work in progress", and lessons should be drawn from each merger or acquisition, thereby affecting the management of future mergers or acquisitions.

3 Methodology

This section of the study will present the method of research chosen for conducting the study, and provide argumentation in favor of this choice. The research design of the empirical study, including the selection criteria for and an introduction of, the units of analysis (i.e. the case companies), will also be presented and justified. The attention will then be drawn to the data collection and analysis procedures, and the section will finish off by considering the quality aspects of the research.

3.1 Research Strategy

The objective of the study is to link the theoretical framework built according to the findings of the literature review to the context of Finnish firms, i.e. to explore whether the framework is relevant in a real-life setting. In other words, the data collected in the case study will be used to revise the framework in order to make it more precise and empirically meaningful (Miles & Huberman 1994, 20). More specifically, the aim is to study what the cultural differences relevant to the outcomes of the mergers and acquisitions of Finnish firms are perceived to be, how cultural differences are perceived to impact the Finnish firms' M&A performance and how Finnish firms manage mergers and acquisitions from a cultural perspective. The study can therefore be classified as exploratory and descriptive.

The research approach followed in this study resembles the constructive approach introduced by Kasanen et al. (1993). The constructive approach involves "problem solving through the construction of models, diagrams, plans, and organizations". The essence of the approach is to tie a managerial problem and its solution to accumulated theoretical knowledge. It can be characterized by the following phases (presented here in the order followed in this study):

1. Find a practically relevant problem which also has research potential.
2. Obtain a general and comprehensive understanding of the topic.
3. Innovate, i.e., construct a solution idea.
4. Show the theoretical connections and the research contribution of the solution concept.
5. Examine the scope of applicability of the solution.
6. Demonstrate that the solution works. (Kasanen et al. 1993, 244-246).

The fundamental disparity between the constructive approach and the one used in this study, however, stems from the use of the term 'solution'. The constructive approach was developed in the context of management accounting, in which the meaning of the term 'solution' differs considerably from the solution referred to in this study. In management accounting, a solution can, for example, be the development of a new analytical tool for optimizing investment value. Such a tool may be presented in the form of a formula, which will yield a specific result after the values of the variables have been inserted into it.

Studies on the effect of cultural differences, on the other hand, deal with much more intangible issues, mainly based on subjective perceptions, and generating such solutions is therefore hardly possible. The solution in this study refers to the solution to the problem introduced in the very beginning of the study, i.e. the fact that although cultural issues have been recognized as an important factor in the outcome of mergers and acquisitions, the high failure rates reveal that these issues are still not fully understood by the merging companies. The solution in this case is the framework itself: a figure, which synthesizes the cultural issues in mergers and acquisitions in a concise manner, and which can therefore serve in efficiently increasing awareness and understanding of these issues.

The first two phases of constructive research presented above (finding a relevant problem and obtaining a comprehensive understanding of the topic) are evident from reading the study this far. In this study, the third step of constructing a solution idea and the fourth of showing the theoretical connections and the research contribution pertain to the construction and revision of the framework. The fifth step of examining the scope of applicability here means ensuring the framework's relevance in the context of Finnish firms. The final step of demonstrating that the solution works is beyond the scope of this study. In other words, it is not possible in this time frame to test whether the framework does, indeed, increase the awareness and the knowledge of the participating managers, and whether that anticipated increase in knowledge actually leads to improved management of mergers and acquisitions.

The research method chosen for this study is the case study, which is also typically applied within the constructive approach (Kasanen et al. 1993, 251). This choice can be justified for several reasons. First of all, the research questions of this study focus mainly on "how" questions, which, according to Yin (1994), is one of the three conditions supporting the use of the case study. The nature of the "what" question posed is exploratory, and therefore any of the five research strategies presented by Yin (1994) (i.e. experiments, surveys, archival analysis, histories or case studies) can be justified for answering this question. Furthermore, the researcher in this case has no control over the actual events, which complies with the second condition in favor of this approach. And finally, although some of the embedded cases included in the study date from the last decade, the focus is on contemporary events instead of historical ones, which therefore satisfies the third condition. As all three of the conditions are met, the case study strategy can, according to Yin (1994), be argued to have a distinct advantage over the other research strategies. (Yin 1994, 4-9).

The case study approach has been criticized for lacking rigor, not providing enough basis for scientific generalization as well as for taking too long and resulting in "massive, unreadable documents" (Yin 1994, 9-10). This criticism has been kept in mind when designing and conducting the research in order to avoid the shortcomings, and generalizations are only made to theoretical propositions (and not to populations or universes), as suggested by Yin (1994, 10).

3.2 Research Design

The research design selected for the study is the multiple-case design. Multiple cases have been claimed to have the advantage over single-case studies of offering the researcher a deeper understanding of the processes and outcomes of cases, as well as presenting the possibility to both develop and test hypotheses. In other words, "multiple-case sampling adds confidence to findings". (Miles & Huberman 1994, 26-29). Although the term 'sampling' is used above, Yin (1994) argues that the logic followed in multiple-case designs should be that of replication, and not sampling. Accordingly, the aim has been to choose the cases studied in this study so that they "predict similar results" (literal replication). (Yin 1994, 45-46). This replication approach is evident throughout the individual case reports presented in section 4 (Empirical Findings) as well as the conclusions derived from those reports (section 5).

In addition to being a multiple-case study, the study follows an embedded design. In other words, each of the individual cases involves one or several subunits. The advantage of using embedded units of analysis is that they "can often add significant opportunities for extensive analysis, enhancing the insights into the single case". On the other hand, the danger pertaining to the use of embedded designs is the fact that the study can shift into focusing on the subunit level only and thereby "fails to return to the larger unit of analysis". (Yin 1994, 44).

3.2.1 Units of Analysis and Selection Criteria

The units of analysis in this study are case companies. The subunits, or the embedded units, are cases concerning specific mergers and/or acquisitions undertaken by these companies. The main purpose of the holistic cases, as explained earlier, is to provide an empirical basis for the revision of the theoretical framework. The purpose of the embedded cases is both to assist in rebuilding the framework as well as to help in testing it. The focus is therefore kept on the holistic level in order to avoid the pitfall connected with embedded designs.

The case companies selected for the study were Stora Enso, Nordea, Datex-Ohmeda, Outokumpu and Company A. Each of the case companies and the embedded cases will be introduced briefly after the following list on the selection criteria.

The criteria by which the cases were selected consisted of the following:

1. The required country of origin of the company was Finland since the study was conducted for a Finnish school in Finland, and any contribution of the study was aimed to benefit Finnish firms in particular.
2. The companies had to, for obvious reasons, have prior engagement in international mergers and/or acquisitions.
3. The size or position of the companies should be significant enough to be interesting for the readers. Although one of the case companies was studied under a pseudonym for reasons of confidentiality, it was not excluded from the study due to the specific contribution provided by its employment of a specialized M&A team.
4. Each company was chosen from a different industry, both to avoid further confidentiality issues (through the exclusion of competing firms from the study) and to assist in the task of exploring different, nationally important industries for the purposes of future research.
5. Competent interviewees to represent the case companies had to be both identified and available for the study.
6. And finally, as for the embedded cases, the aim was to achieve a reasonably wide representation of the different merger types. Although the study focuses on international mergers and acquisitions, a domestic case of each was included for purposes of comparison.

3.2.2 Case Companies

Stora Enso

Stora Enso is a forest products company producing magazine papers, newsprint, fine papers, packaging boards and wood products. The company was formed in the 1998 merger between Swedish Stora (with roots all the way back in 1288) and Finnish Enso (founded in 1872). The company's sales totaled €12.8 billion in 2002 and it employs around 42 500 people in more than 40 countries. (Stora Enso 2002).

Growth through mergers and acquisitions has been and still is "one of the cornerstones" of Stora Enso's strategy. Mergers and acquisitions were also "a very important avenue for growth for both Stora and Enso prior to their merger". (Ansaharju 2002). Since 1985, Enso had gone through seven acquisitions, three of which were cross-border. The equivalent for Stora was four (two cross-border). Since the merger, the group has engaged in two more cross-border acquisitions. (Härmälä 2002, 8). The embedded cases chosen for the study were the acquisition of Tampella Forest in 1993, the Stora Enso merger in 1998 and the acquisition of Consolidated Papers in 2000.

The stated values of the company are customer focus ("we are the customers' first choice"), performance ("we deliver results"), responsibility ("we comply with the principles of sustainable development"), emphasis on people ("motivated people create success") and focus on future ("we take the first step").

Nordea

Nordea is the largest Nordic financial services group with approximately €252 billion in total assets. The group operates in three business areas: Retail Banking, Corporate and Institutional Banking and Asset Management & Life Insurance. The group has over 10 million customers and 1245 offices in 22 countries. The number of employees is approximately 39 000. The group has been formed through numerous mergers and acquisitions, and it now incorporates banks originating from Finland, Sweden, Denmark and Norway. The Finnish Union Bank of Finland, which is the main focus of this study, traces its history back to 1862. (Nordea 2002).

Mergers and acquisitions have been an extremely important part of the bank's growth strategy, especially because it is difficult to grow organically in such a mature business. However, now that the company has achieved the Nordic position it sought after, it is not expected to engage in large mergers in the near future. Instead, it will aim to reinforce its position partly through organic growth and partly through minor acquisitions. (Palin-Lehtinen 2002). Since 1991, the Union Bank of Finland has gone through the acquisition of a part of the Savings Bank of Finland, the merger with Kansallis-Osake-Pankki (KOP) to form Merita in 1995 (embedded case number 1), and the merger between Merita and Swedish Nordbanken to form Merita-Nordbanken in 1997 (embedded case number 2). Merita-Nordbanken further merged with Unibank of Denmark to form Nordea in 1999, followed by the Norwegian Christiania Bank og Kreditkasse joining the company in 2000. The company has also engaged in a number of smaller acquisitions. (Nordea 2002).

According to the corporate statement, the corporate values are: value creation ("we thoroughly understand our customers and anticipate their financial needs and we always try to generate added value for each customer"), innovativeness ("we explore our competencies and try out new ideas to improve existing services, create new solutions or meet new needs") and empowerment ("we respect our customers and proactively offer financial solutions and services making their lives and business activities easier").

Datex-Ohmeda

Datex-Ohmeda is the core business of Instrumentarium Corporation's (founded in 1900) largest business segment, Anesthesia and Critical Care. Datex-Ohmeda was formed in the 1998 merger between Instrumentarium's business unit Datex (established in 1969) and American Ohmeda. The company's product portfolio consists of patient monitors, networked systems, anesthesia machines, ventilators, drug delivery systems, pulse oximeters as well as supplies, accessories and services. (Datex-Ohmeda 2001). The company employed some 3300 people in 2001 and had sales companies in 14 and presence in 100 countries worldwide (Datex-Ohmeda 2002). Instrumentarium's net sales in 2001 totaled over €1 billion, approximately 70% of which originated from Datex-Ohmeda (Instrumentarium 2002).

Mergers and acquisitions are an important part of Instrumentarium's strategy especially serving the anesthesia and critical care business segment. (Ritvos 2002). Starting from 1994, Instrumentarium has engaged in five major acquisitions concerning Datex-Ohmeda, only one of which has been domestic. (Datex-Ohmeda 2001). The embedded cases chosen for closer examination were the acquisition of Engström in 1994 and the Datex-Ohmeda merger in 1998.

Datex-Ohmeda's values include dedication ("to excel at we do requires hard work and dedication"), focus ("we focus on the essential") and balance ("the nature of our business requires us to find order and rhythm in the maelstrom of technological progress; to display personal commitment, honesty, responsibility and humility").

Outokumpu

Outokumpu is a metals and technology company, whose roots can be traced back to 1908. It specializes both in stainless steel and non-ferrous metals, i.e. fabricated copper products, copper and zinc metals production and related technology. In 2001, the group's net sales were about €6 billion and it employed over 19 000 people in more than 40 countries. The group comprises over 200 companies and more than 90% of its net sales are generated outside Finland. (Outokumpu 2002).

The year 2001 was the beginning of a new strategy for the company, one of growth and transformation. The target is to double the company's profit and transform from "an asset-driven metals producer into a knowledge-driven company", in other words to exit the mining business and to focus on the downstream of the value chain. The role of divestments as well as mergers and acquisitions has therefore become increasingly important for the company. (Juusela 2002). The company's first notable acquisition of a production company occurred in 1983 (the company had earlier acquired numerous mines), and the 1980's was marked with numerous acquisitions (the company tripled its sales during this period through international acquisitions). (Outokumpu 2002). The new strategy has again accelerated the rate of acquisitions, last year the rate being in the ballpark of ten acquired companies. (Lassila 2002). The acquisition/merger presented as the embedded case of Outokumpu (Embedded Case One) cannot, for reasons of confidentiality especially due to the recent nature of the transaction, be studied under its real name. Despite the fact that the case was so recent, that for example its performance could not yet be assessed, the case was interesting and it did, nevertheless, provide valuable insight to the topic, and was thereby not excluded from the study.

The stated values of the corporation consist of superior knowledge ("we value knowledge gained from both theory and experience"), outstanding performance ("we strive for superior profitability in all our activities"), individual achievement ("we are responsive, resourceful and proud of our achievements in building the success of Outokumpu") and creating success with customers ("we strive to understand our customers' business and build long-term relationships with them").

Company A

As mentioned above, for reasons of confidentiality and non-disclosure, Company A cannot be presented under its real name. All that can be said is that the company is a technology company with presence in several countries. The actual names of the embedded cases (Embedded Case X and Embedded Case Y) cannot be revealed either. This, however, was not perceived to reduce the content value or contribution of these cases to the study to the extent that they should be barred from the study.

3.3 Data Collection & Analysis

3.3.1 Case Study Protocol

According to Yin (1994), having a case study protocol is not only desirable, but "it is essential" when using a multiple-case design. The purpose of the protocol is to act as a guide for the researcher in carrying out the case study as well as being a tool in increasing the reliability of the research. In accordance with the recommendations of Yin (1994), the case study protocol developed for this study included the following sections: an overview of the case study project, the field procedures, the case study questions and a guide for the case study report. (Yin 1994, 63-65). A brief account of each of these sections will be given next.

Overview of the Case Study Project

The research problem presented in section 1.2 of this study provided a clear background for this study and was used in explaining the rationale of the study to the potential interviewees. Meanwhile, the literature review and the reference list related to it, which were completed before planning the case study, presented, in a concise manner, the relevant readings on the issues in question.

Field Procedures

The field procedures included a letter sent to each interviewee introducing the topic and the research problem (as mentioned above) and requesting an interview. The interviews were later confirmed via telephone and/or e-mail. The availability of the interviewees to later answer possible supplementing questions was confirmed during the interviews and the interviewees' preferred method of contacting them for this purpose was established. A clear schedule was made for carrying out the interviews. The main consideration for the resources used in the field was to have a back-up recorder available in case the one primarily used would break.

Case Study Questions

The case study questions were based on the preliminary research questions of the study and, consequently, the theoretical framework drawn from the findings of the literature review. The questions were initially formulated for the researcher's benefit, and served mainly as a reminder of the data needed. Each topic discussed had a clear link to the framework and the questions concerning the embedded cases were also clearly linked to the specific theories presented in the literature review.

Guide for the Case Study Report

A preliminary outline for the study report was completed before entering the field. The basic design of the final case study report helped in ensuring that the necessary data was collected during a single interview, since most of the interviewees were not easily available (only one additional question had to be posed from three of the interviewees after the actual interviews). The fact that the eventual readers of the study would consist of both scholars and business managers was kept in mind when designing the case study report.

3.3.2 Collecting the Data

To increase the quality of the case study research as proposed by Yin (1994), the data collection efforts followed three principles: the use of multiple sources of evidence, building a case study database and maintaining a chain of evidence. (Yin 1994, 90-99). These will be briefly examined next.

Sources of Evidence

The main source of data in this case study originated from a total of seven interviews from the five case companies. The interviews were focused, in-depth interviews, which lasted from approximately one and a half to three hours. One of the interviews was conducted via e-mail and a follow-up phone call due to the interviewee residing in the United States. The semi-structured questionnaire used in the interviews first focused on general questions and then proceeded to follow the structure of the theoretical framework to a large extent. Appendix A:

Interview Questionnaire presents the broad outline of the interviews. The questionnaire mainly served as a prompt for the interviewee; some of the questions were not dealt with in each interview, whereas questions not included in the questionnaire were presented to follow up some of the answers of the interviewees. A pilot interview was conducted in order to test the questionnaire and modifications were made accordingly. A subjective scale of 1 to 5 was used to probe for answers to questions which were perceived to be more difficult. The interviews were conducted in Finnish and recorded for later transcription, with the exception of the e-mail and telephone affair. Field notes were also made during each interview, both to support the recordings and to graphically document some of the issues discussed (such as discussion on processes or organizational charts).

The interviewees were carefully chosen to represent the case companies. The aim was to find the most competent people in the topic area at hand. One of the seven interviewees volunteered to take part in the study, three were identified from their participation in a book on the subject (i.e. Erkkilä 2001), one by his participation in a seminar concerning the topic and two through recommendations from the previous. One of the interviewees no longer worked for the case company in question, which was thought of as an advantage, since the interviewee could express his opinions on the subject more freely. Because one of the interviews was conducted via e-mail, involving a second interviewee to represent that case was assessed as necessary. One of the embedded cases was likewise discussed with another interviewee, since he was named as the most experienced in that subject. (See Appendix B: Interviewees for a table introducing the interviewees).

The second source of evidence was documentation and archival records. The documentation received from the companies consisted mainly of the annual reports of the companies, earlier studies made on the subject and magazine & newspaper articles. Specific archival records were, unfortunately, mostly off-limits, but slides from presentations given on the subject were made available from two of the companies. The book by Erkkilä (2001), which presents earlier interviews with three of the interviewees on the same subject, was also used to support and confirm the accounts given in the context of this study. And finally, although the interviews were carried out in the companies in all but one of the cases, thereby making direct observations possible, these observations mainly consisted of the general perception of how important the topic seemed to be for the interviewee, and has therefore only had limited importance in the study.

Case Study Database

All the data gathered for the case study has been collected in a database, including the tapes and transcripts of the interviews, the field notes, the printouts from e-mails, the documents and the archival records. The database also includes the individual analyses of each case, which were not presented in the final report. The data has been organized by case company and all the pieces of information included have been dated.

Chain of Evidence

The database described above, as well as the database containing all the references of the literature review (with the exception of a few books from the library), both serve in providing a chain of evidence from the conclusions derived from the cases to the initial research questions, and vice versa. For example, the individual analyses of the cases can be accessed for a closer look at the analysis process. The case study report has also attempted to present the issues in a logical order to allow for a chain of evidence throughout the report.

3.3.3 Analyzing the Data

The process followed in conducting the case study is illustrated in Figure 10 (Yin 1994, 49). The early stages of the process have already been examined, but the figure is presented here in order to help in explaining how the cases were analyzed.

As proposed by the figure, the individual case reports were written and analyzed first. The purpose of the individual case reports was to present the data collected from the interviews to the reader in an organized manner. The structure of these reports followed the structure of the framework. The embedded cases were presented at the end of each holistic case. The aim of the analysis was to link the reports to the different theories incorporated in the theoretical framework where possible. This analysis then served as the basis for the next section of the study, i.e. the cross-case analysis.

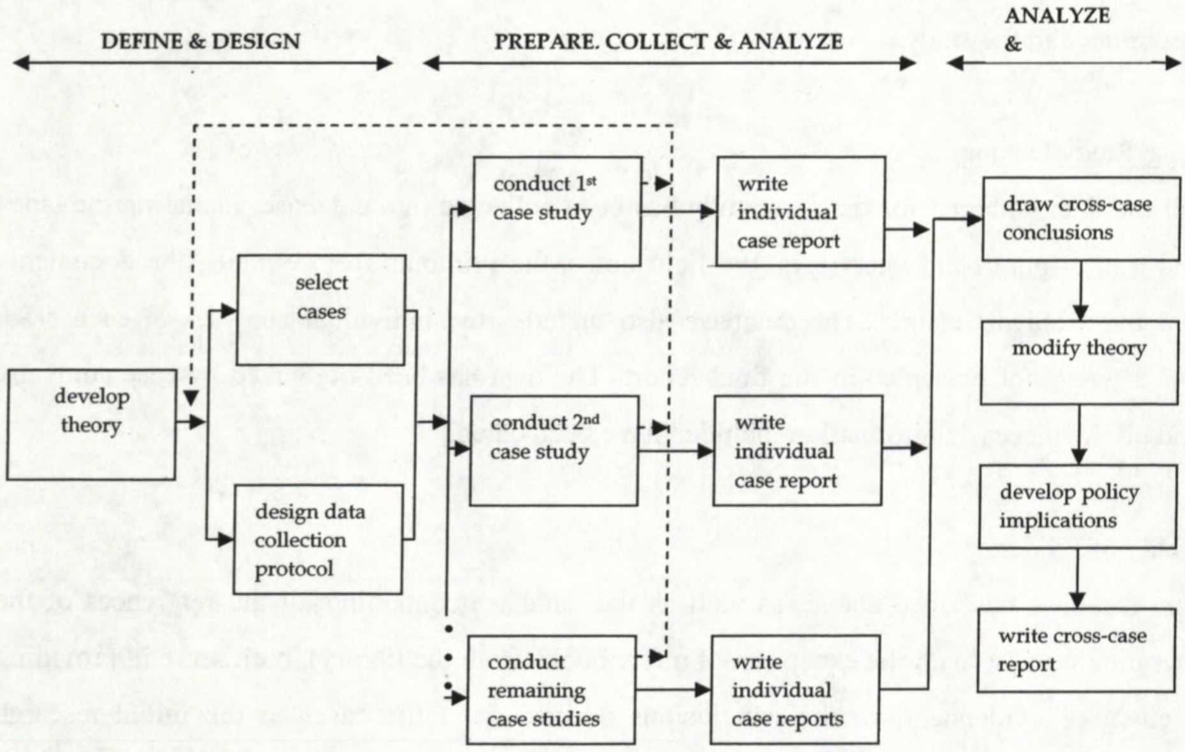

Figure 10: Case Study Method

Source: Yin (1994, 49)

In the cross-case analysis, coding was used to help in categorizing the data from the holistic and embedded cases, after which the data was assembled in clusters relating to the different issues presented in the framework. These steps, as proposed by Miles and Huberman (1994, 56-57), helped in organizing the data to be able to draw conclusions from it. The data from the embedded cases was synthesized by the means of a table (Table 10 in Appendix C: Synthesis of the Embedded Cases), which was also used for the purpose of a closer examination of the theories included in the framework. The conclusions drawn from the cross-case analysis were ultimately used in revising the framework.

3.4 Evaluation of Quality

According to Yin (1994), the quality of the research can be established through four different tests: construct validity, internal validity, external validity and reliability. The test of internal validity, however, does not apply to this study, which is considered exploratory and descriptive (as explained earlier). Internal validity, as suggested by Yin (1994), is relevant to explanatory and causal studies only. Table 6 presents the recommended case study tactics for dealing with each test (excluding internal validity) and thereby improving the quality of the research. The table also depicts the phases of the research where these tactics should be followed. (Yin 1994, 32-38).

The construct validity (defined as "establishing correct operational measures for the concepts being studied" – Yin 1994, 33) was improved by all of the measures proposed in Table 6. In other words, as explained earlier, multiple sources of evidence were used to allow for data triangulation (e.g. interviews, annual reports, earlier studies, earlier interviews, slides, articles) and a chain of evidence was established (e.g. the analyses of the cases and the ensuing results are clearly linked to the data from the cases, the table used in synthesizing the embedded cases is included in the appendix, and the analyses of individual cases are available for anyone interested in a closer look at the analysis process). Each interviewee also reviewed their part of the study and corrected any possible misinterpretations and translation flaws. Possible misunderstandings concerning the interview questions were corrected on site, and therefore the issues discussed in one interview were comparable with those discussed in another.

Table 6: Case Study Tactics for Four Design Tests

Source: Adapted from Yin (1994, 33)

Tests	Case study tactic	Phase of research in which tactic occurs
Construct validity	- use multiple sources of evidence - establish chain of evidence - have key informants review draft case study report	Data collection Data collection Composition
External validity	- use replication logic in multiple-case studies	Research design
Reliability	- use case study protocol - develop case study database	Data collection Data collection

External validity (i.e. how far the conclusions can be generalized – Miles & Huberman 1994, 279) was enhanced by using a multiple-case design and replication logic, clearly observable throughout the report. And finally, reliability was improved by designing and using the case study protocol described above and building a case study database, which allows for verifying all of the reference sources used, including e.g. books and articles (excluding some books, which are available in the library), printouts from web pages and other documentation, as well as the original transcribed interviews and e-mail printouts.

Even though the aim was to conduct a study of as high a quality as possible, the scope and relatively tight schedule of the study, as well as scarce resources, limited the research somewhat. The most important limitations to the case study pertained to the number of interviewees involved. Although all of the interviewees were competent in the field studied, they primarily represented top management, and the research may have benefited from including interviewees from other levels of the organizations as well. Moreover, the study only included representatives from one of the parties involved in the merger or acquisition, and the perception of the events can therefore be assumed to be biased at least to some extent. And finally, the intentional choice of studying case companies from different industries instead of just one industry was acknowledged to decrease the external validity of the results (the ability to generalize to one specific industry) somewhat. However, as explained in the introduction of the study, one of the main objectives of the study was to provide a basis for further research, and thereby the decision of limiting the number of respondents as well as exploring different industries at this time was deliberate, although they were recognized as potential shortcomings.

4 Empirical Findings

4.1 Individual Case Reports

This section of the study will present the findings of the empirical study by separately going over each of the case companies introduced above. The aim of these individual case reports is to build up an understanding of how the companies in question take cultural issues into account in their M&A activity. The structure of these reports will follow the theoretical framework (Figure 9 on page 39), starting from whether a formal M&A process exists and who is involved. The section will then focus on the factors affecting the level of cultural conflicts (upper part of Figure 9), after which the management of cultural factors (lower part of Figure 9) will be examined. Finally, attention will be drawn to the perception of the effect of cultural management on the post-merger organizational performance. The embedded cases, i.e. specific mergers or acquisitions undertaken by the case companies, will be presented briefly at the end of each report.

4.1.1 Stora Enso

<u>M&A Process</u>

Mergers and acquisitions, as explained in the introduction of the company, very much pertain to the growth strategy of Stora Enso. The first task when engaging in mergers and acquisitions is to identify the suitable target companies in order to attain the strategic goal at hand. Stora Enso then follows a defined procedure, which generally consists of three phases: 1) analyzing the target prior to the decision, 2) due diligence and preparing for the final deal and 3) integrating the acquired company. The procedure used is not extremely standardized and allows for variations, as mergers and acquisitions are always unique events. The intention is to have two to three core persons involved in the process from the very beginning to the end. In addition to people from the particular business line in question, every M&A team includes representatives from the finance, legal and human resource departments. Representatives of the target company participate in the team work starting from the due diligence and preparation phase.

Factors Affecting the Level of Cultural Conflicts

The levels of cultural differences that have been identified to affect mergers and acquisitions at Stora Enso are national, organizational and individual. The national cultural differences are thought of as obvious and they can be studied from various sources. Organizational cultural differences are perceived to be more complex and to have their roots from company history and traditions, management styles (e.g. hierarchical vs. empowered, job description driven vs. goal driven) and national cultural characteristics, which, according to Ansaharju, often affect organizational culture, e.g. decision-making procedures. Furthermore, individual cultural differences at high levels in the organization were perceived to have a strong impact on the M&A process.

In addition to national and organizational cultures as well as differences in individuals, Tolvanen brought up differences between people from different locations inside a nation. He based his arguments on Enso's 1995-1996 acquisition of Veitsiluoto, a company with factories in Oulu, Kemi and Kemijärvi. All of these locations are situated relatively far north from the headquarters located in Helsinki, and cultural differences could be observed between the people from the north and those down south.

Organizational cultural differences, and especially differences in how decisions are prepared and made, are considered by Ansaharju to be the most important level of cultural differences in mergers and acquisitions. Tolvanen, on the other hand, perceived national cultural differences to be more important. He maintained that in domestic acquisitions, the initial thinking is that the way in which things are done in the acquiring company is automatically adopted by the acquired company. In cross-border acquisitions, however, where national cultural differences come to play, the integration becomes more complex as individuals "hold on tightly to their national traditions" and to the way in which things are done in that specific culture.

When asked to contemplate on the causes behind cultural conflicts, Ansaharju argued that the "biggest single obstacle" in mergers and acquisitions comes from people not understanding how and where important decisions are made. The other possible sources of conflicts he mentioned were unclear practices in promoting people and poor communication. Tolvanen also took up the issue of differences in decision-making, referring to his experience in the Stora Enso merger:

> ...A [Finnish] team leader can, after a short discussion, make a decision at his own risk. If it's a German [team], the decision is made by whoever makes it first and the others are astonished that there was no discussion on the matter whatsoever. ... There is something similar in the Finnish and German culture, we are both on the "on the spot" front and well, the decisions are made right away. If the decisions are wrong, we will make new ones tomorrow. But a Swede cannot decide with the same speed. He has to be sure that the decision is correct. And that discussion phase takes a long time.

In addition to differences in decision making, Tolvanen brought up the problem of having to cope with different languages. He referred to an article in Helsingin Sanomat (Paakkanen 2002, D3) on how Swedes criticized the language skills of Finns and admitted that he had encountered the fact that Swedes did not value Finlandssvensk, i.e. the Finnish way of speaking Swedish. Although English is the official language in Stora Enso to allow for equality between Swedes and Finns in the language matter, it is not always spoken well and therefore Swedish is used at times. This, however, can cause frustration in both parties.

Another problem area that Tolvanen brought up was national stereotypes. According to his observations, relying on national stereotypes will result in the formation of different national teams, which then compete against each other (e.g. a "Finland vs. Sweden national contest"), complicating the integration further. One should therefore not forget that a person is first and foremost an individual.

In general, cross-border mergers or acquisitions are thought of as more demanding than domestic ones. Due to this perception, however, more effort is put into managing international ones and they have therefore been seen to succeed equally well.

<u>Management of Cultural Factors</u>

The management of cultural factors in the first phase of the M&A process at Stora Enso (i.e. the analysis of the target company), is limited to general studies made of the target company. This is due to the fact that in-depth analysis of cultural issues cannot be made at this stage as contacts between the companies are usually limited for competitive reasons. The second phase, the due diligence and the preparation for the final deal, is where "the cultural work really starts". The first task is to carry out a "Values and Attitudes" survey among the people of the company to be acquired. There is a standard procedure for doing the survey and it has been perceived to provide Stora Enso with a lot of information on the cultural differences or similarities between the two parties, thereby forming a useful background for the next steps. The general aim in the due diligence and preparation phase is to have change of information at all levels.

Starting in phase 2, but going on to the third phase of integration, is the communication of Stora Enso's mission, vision and values (presented in the introduction of the company) to all employees. Everyone is given an opportunity to discuss the values and other cultural issues with people from the acquiring company. Stora Enso also organizes one and a half day Intercultural Management courses for managers and the managers of the "new family member" are encouraged to participate. Other in-house training courses are also organized for the acquired party. The integration process is coordinated by the human resource and communications departments, but the responsibility of implementation lies on the line management.

According to Ansaharju, communication is considered to be very important in mergers and acquisitions, and is handled "in hundreds of different ways". Communication in the line, cascading from top down, is thought of as the most important channel, but numerous other ways are used as well. The tools utilized by the communications department include, among others, printed material, meetings and the Intranet. Discussions about Stora Enso's mission, vision and values in all departments and at all levels has been perceived to be an effective way of communicating cultural issues. Tolvanen also emphasized the importance of communication and stated that as soon as an acquisition is made, "people should be communicated to immediately; otherwise they're, well, in trouble". In addition to listing the proposals for managing mergers, the following list presented by Ansaharju in Erkkilä (2001) clearly exhibits the importance of constant communication in mergers:

What should be done to make the road to integration less bumpy?

10 suggestions

1. Communicate.
2. Investigate and convey the organization's atmosphere, values and attitudes – conduct a follow-up study. Communicate.
3. Decide on and name the organizational structures and responsibilities PROMPTLY. Communicate.
4. Convey the policies of the company. Communicate.
5. Make the key persons the owners of the different phases of the restructuring process. Communicate.
6. Agree on the principles on how the rest of the organization is built and on what basis the cutbacks in personnel are made. Communicate.
7. Create a mission and vision for the new company as soon as possible. Communicate.
8. Create strategies for the new company and all of its units as swiftly as possible. Communicate.
9. Define the values of the company and create a process for committing people to them. Communicate.
10. Communicate.

(Ansaharju in Erkkilä 2001, 215)

Effect of Cultural Management on Post-Merger Organizational Performance

The goals to evaluate success in mergers and acquisitions are set for financial synergies, strategic objectives (e.g. whether a new market was entered successfully) and cultural performance. Although the latter is perceived to be difficult to measure, it is to some extent accomplished through the repetitive Values and Attitudes surveys presented earlier as well as self assessments, which are a part of Stora Enso's established Total Quality Management system.

According to Ansaharju, the management of cultural factors has been perceived to improve performance over time "very much". Learning by doing and experience, as well as standardized procedures, have helped in managing mergers and acquisitions. Tolvanen also emphasized the importance of experience. When measured by financial metrics, however, Ansaharju admits that it is difficult to say whether the management of cultural factors has enhanced performance, as economic situations are different in each case. But from a cultural point of view, Ansaharju maintains that the management of cultural issues has "really proven to improve the performance".

Tolvanen also acknowledges the importance of taking cultural issues into account, but he maintains that it does not affect all levels of the organization, but only the ones sharing common functions. He explains:

> I visited a steel factory in Tornio today, and I still envision this guy there, wearing a blue overall and an old felt hat on his head, with a cigarette in one side of his mouth and driving a bicycle at a ¼ speed forward…It really just came to my mind that on the factory floor level, nothing whatsoever changes. … The overalls of the different firms [are still there], in Stora Enso some still wear Ahlström overalls, some Tampella Forest overalls, some Gutzeit overalls.
>
> The same employee will have the cigarette in the same side of his mouth driving the bicycle at the same speed – not much will happen to that, even if the signs of the firm are changed to whatever.

Overall, cultural issues seem to be taken seriously in Stora Enso's mergers and acquisitions. Ansaharju personally considers cultural issues to be equally important compared to strategic issues and synergies in mergers and acquisitions. As mentioned earlier, the management of cultural issues and the accumulated experience thereof has been perceived to improve the post-merger performance, which in turn motivates in allocating resources to those issues in the future as well. Ansaharju emphasizes, however, that every merger is unique, and that although preparation and standard procedures help, it is up to the team responsible for the implementation of the merger or acquisition to make the transaction a success.

4.1.1.1 Tampella Forest

Enso Group acquired Tampella Forest from Tampella Group in 1993. The purpose of the deal was to increase the size of the acquiring company. The two parties operated in the same industry sector, and it was considered very important that they work together in terms of organizational integration. The transaction was a pure acquisition and Enso was determined to impose its own organizational culture and systems on Tampella Forest (when prompted to evaluate how keen the other party was on preserving their own culture on a scale of 1, not at all, to 5, very much, a subjective rating of 5 was given by Tolvanen).

Although Tampella Forest was known to have a strong organizational culture ("they even had their own common songbook"), the differences were not thought to be significant. However, decision-making in Tampella Forest had been relatively unconstrained, and the involvement of Enso forced Tampella Forest to take into account all the parts of the acquiring company, thereby considerably limiting their freedom to make decisions. This, according to Tolvanen, might have caused some resistance to change. People in Tampella Forest also believed that they knew better how to operate in a small community and were quite keen on preserving their own systems and practices (a 4 by Tolvanen). Nevertheless, after some arguments on the matter, the practices applied in Enso were adopted in Tampella Forest.

The mindset of the people in Tampella Forest towards the acquisition was not seen as specifically enthusiastic, and accordingly, Enso was not considered a specifically attractive acquirer. However, the financial state of Tampella Group was relatively poor (as was the state of all the Finnish forest companies at that time due to the recession in Finland), and Tampella Group had basically no other choice but to sell Tampella Forest.

The integration mostly involved the integration of different functions, such as sales, logistics, accounting and computer systems. Tolvanen does not recall whether any cultural management took place, but says that in time, the cultural differences gave way and the Enso culture prevailed.

A year or two after the acquisition took place, the market conditions improved significantly, allowing Enso to reap the benefits of the acquisition, i.e. the cash flows initiated by Tampella Forest. Whether it was due to good luck or outstanding know-how in the matter, the deal could overall be considered a big success.

4.1.1.2 Stora Enso

The merger between the Finnish government-owned Enso and Swedish investor-owned Stora was confirmed in December 1998 (announced in June 1998). The purpose of the deal was to increase the company size. Another motivation for the deal was the Finnish government's desire to reduce its ownership in the company in a controlled manner, i.e. without excessively disturbing the markets. The merger was thought to be a "merger among equals". Both companies operated in the same industry and complete integration of the two parties was the objective.

According to the "merger among equals"-principle, the intention was not to impose either company's existing culture. It was seen as essential to form a distinct management for the new company. A new culture was to be created and a program to accomplish this goal was developed as soon as the deal was confirmed. The objective of the program was to come up with the mission, vision and values of the newly-merged company. (Ansaharju in Erkkilä 2001, 209).

What comes to integrating the ways in which things were done in the two companies, the idea was to look for best practices. The practice chosen was, according to Tolvanen, at times quite difficult to accept by the party that had to change. The fact that best practices were sought after did, nevertheless, help in overcoming situations where there were disagreements on whose practice to adopt. Generally speaking, Tolvanen rated Stora's resistance to change as a 4, as some disagreements did arise although it was initially clear that the best practices would prevail.

One of the cultural differences encountered mentioned by Tolvanen stemmed from the fact that Stora had a longer history than Enso. Stora had had a very important position in Sweden, boasted a strong organizational culture and its employees were "genuinely proud of their company". The fact that the Finnish counterpart was a younger company that had grown to approximately the same size and power in a much shorter period of time was initially an issue that the Swedes did not seem to take well. The mindset of the people at Stora towards the merger was, however, perceived by Tolvanen to be neutral for the most part and "the higher in the organization, probably the more necessary the merger was thought to be".

The other cultural difference pointed out by Tolvanen was the difference in decision-making. Enso had a more centralized decision-making process, and therefore the headquarters was strongly involved and the cooperation between the different divisions of the company was quite limited. Decision-making in Stora, on the other hand, was more dispersed.

In addition to the decision-making discussed above, the differences between the two parties listed by Ansaharju (in Erkkilä 2001) were differences in the degree of internationalization, structure of ownership, organizational structure, management style as well as values and attitudes (to some extent). Ansaharju also mentioned history, but he meant differences in the more recent history of the two firms. On the other hand, the similarities in the organizational cultures between the two stemmed from the fact that both companies operated in the same industry, had similar products and the same market, as well as the same infrastructure and a similar structure of fixed assets. (Ansaharju in in Erkkilä 2001, 208-209).

By the means of a comparative table, Ansaharju (in Erkkilä 2001) also depicted the differences they had encountered in the organizational cultures between the three most important countries involved in Stora Enso's business operations: Finland, Sweden and Germany (see Table 7). The differences between these three cultures were thought to be "small, but significant". (Ansaharju in Erkkilä 2001, 209). The national cultural differences brought up by Tolvanen were the ones presented above in section 4.4.2, i.e. the differences between Finnish, Swedish and German decision-making modes, the language issue and the Finland-Sweden national contest –thinking evident in some interactions.

Table 7: Comparison between Three Different Organizational Cultures

Source: Ansaharju in Erkkilä (2001, 209)

	Finland	Sweden	Germany
Rules vs. Relations	Rules and processes are respected	A more flexible adaptation according to situation at hand	Rules and processes
Group vs. Individual	Set clear objectives that require individual initiative	Consensus is respected	Mutual objectives, individual achievements in distinct order
Expression of Feelings	Reserved/neutral	Neutral/reserved	Neutral, but feelings are expressed more
Participation	Direct	Indirect	Direct, task roles respected
Position in Relation to Achievements	Position dependent on results (short/long-term)	Position based on more durable factors, egalitarianism important	Position based more on experience and age

According to Tolvanen, a factor which hampered the beginning of the integration process was the fact that it took half a year before the European Union granted Stora Enso permission to proceed with the merger after its announcement. The time spent waiting for the EU decision was thought to be difficult, because everyone planned for the future, but could not begin implementing the plans before the deal was confirmed. On the other hand, Tolvanen stated that as soon as the confirmation was received, thorough plans for the integration were ready and the process took place in an efficient manner.

The cultural management of the merger was handled through a cultural integration program, which incorporated a 100-day planning period. This project was lead by a management team consisting of the deputy CEO and 4 members of the board of directors, 2 from each party. The first task of the project was to carry out a survey to evaluate the values and attitudes of both parties with the help of outside experts. The results were used to plan training sessions, which were voluntary and open to all. The survey was renewed a year and a half later. Although the survey did not result in immediate changes in all problem areas, the process as a whole was appreciated by the personnel, because it showed that the management took these issues seriously. (Ansaharju in Erkkilä 2001, 209-210).

The other major task during this program was to come up with the new values of the merged company. The values (as well as the mission and vision) were first formed in a seminar of 100 managers and then tested in different units of the company and modified accordingly. When they were completed, they, along with the new overall strategy of the company, were presented at a Top-200 seminar (involving 200 people), which took place approximately five months after the confirmation of the deal. The process by which the new values would be driven into the company was named "walk the talk" and the responsibility of its implementation was given to line management. The central part of this process consisted of one-day workshops (organized with the help of consultants) open to all 40 000 Stora Enso employees and those who participated received a memo card with the new values printed on it. Overall, the project was thought to be a success and it was perceived to be helpful in accelerating the integration. (Ansaharju in Erkkilä 2001, 210-212).

Communication was an integral part of the integration process and it was, according to Tolvanen, very well taken care of. The communication material was ready from day one, and everyone was kept informed on how things were proceeding.

According to Ansaharju, the assessment of the existing values and attitudes of the company, the creation of new values by the top management together with the organization, and committing people to these values can have a significant impact on the success of the acquisition. All in all, the lessons learned on the cultural management of mergers and acquisitions were the following:

- Speed is decisive.
- Integration processes should be planned, logical and carried out without delay.
- The organization must be kept informed at all times.
- The new company should have a clear governance.
- The personality and style of the CEO matters.
- The example of executives and top managers matters.

(Ansaharju in Erkkilä 2001, 214).

The long term objective of the deal was to obtain the size and market position needed to allow Stora Enso to become one of the five or so leading companies foreseen to remain in this industry in the world in the next 10 or 20 years. The short term objectives included several financial goals. Stora Enso, according to Tolvanen, performed quite well in meeting the short term financial goals at least until the slowdown of the economy in 2001. According to Tolvanen, the deal was "the right thing to do".

4.1.1.3 Consolidated Papers

Consolidated Papers was an American producer of coated papers, which Stora Enso acquired in 2000. The purpose of the deal was to "gain a foothold" (a 10-15 % market share) in the world's largest markets, i.e. in the United States. The transaction was a pure acquisition – Consolidated Papers was in a rather poor financial state and the need to be acquired was obvious. The companies were very much related (operating with the same product portfolio), but it was not seen as important that the two companies work together in terms of organizational integration. Stora Enso's desire to impose its own culture was rated by

Ansaharju as a 4 or 5. He explained that they applied an umbrella model, where the top consisted of the values, vision and mission of the company, but under which the acquired party was allowed to carry on some of its own practices. It was also important that most of the local managers were retained.

The anticipated cultural differences stemmed from differences in management styles. Stora Enso had a more dispersed management, based on empowerment, while Consolidated Papers applied a more hierarchical and centralized management. The Consolidated Papers employees had less freedom in decision-making than their Stora Enso counterparts.

Consolidated Papers was perceived by Ansaharju to be "terribly enthusiastic" about the acquisition. As mentioned above, they knew that the company was for sale, and they wished that the acquirer would be European because an American acquirer would probably have restructured the company more vigorously, resulting in more lay-offs. Although Stora Enso was not that well known at the factory floor level, the management knew it well and perceived it to be an attractive choice for an acquirer.

There was not too much resistance to change (a 3 by Ansaharju), although the people at Consolidated Papers were perceived to be very committed to the firm. The need to change had to be well presented and explanations on what the change process would mean on the individual level had to be given in order to overcome the resistance.

The cultural management of the acquisition took place according to the process described in the general section (4.4.3) concerning Stora Enso's cultural management. In other words, the values and attitudes survey was carried out and the communication of Stora Enso's mission, vision and values took place. Intercultural management courses were also arranged, as well as other in-house training sessions. Numerous methods and channels of communication were used.

As mentioned above, the main objective of the deal was to gain foothold in the US market, in other words to build a platform there for later expansion. According to Ansaharju, the goals pertaining to cultural integration and synergies were met, but the financial goals were not, which was attributed to a dismal market situation specifically in the coated papers. Tolvanen also pointed out that Stora Enso has openly admitted that it simply paid €1 billion too much for the company. The deal can therefore not be considered a success in the short term, but the anticipation is that it will turn out to be one in the long term.

4.1.2 Nordea

M&A Process

Nordea does not utilize a documented process in its mergers and acquisitions nor does it have a department specifically in charge of the company's M&A activity. Instead, mergers and acquisitions are handled in project teams and the team members are chosen depending on the target and situation at hand. The team is usually led by a corporate level manager of the business area in question (retail banking, investment banking etc.), who shares the responsibility of the transaction together with a person from the company's strategic planning department. The other members of the team include people from taxation, accounting and legal matters. External consultants are generally also employed. The human resource department becomes strongly involved in the process in the integration phase.

Factors Affecting the Level of Cultural Conflicts

Both national and organizational cultural differences have been acknowledged to exist, and both, according to Palin-Lehtinen, have to be taken into account when engaging in mergers and acquisitions. Although it is often very difficult to separate these two levels of cultural differences, the effect of organizational cultural differences has been perceived to be stronger than that of national culture. Other levels of cultural differences, such as industry and business culture, have not been seen to affect mergers and acquisitions a great deal, as Nordea's M&A activity largely pertains to the same industry, i.e. banking. The trade is very established and controlled, and the international players all abide to the same rules, thereby resulting in a relatively low level of differences in business culture.

According to Palin-Lehtinen, the reasons why cultural conflicts can arise include the fact that the change process involved in all mergers is always difficult and contains a lot of emotion. Another reason is the lack of knowledge, such as making decisions concerning the accounting practices of the corporation without taking into account the fact that different countries have different accounting laws. Language issues have also been perceived to cause problems, specifically problems coming from thinking in one language and speaking in another. Palin-Lehtinen explains:

> Everyone speaks English. But we nevertheless think in our so called home language. And we translate from that home language to English. Let's take a matter as simple as "utmärket". In Danish it is by no means "utmärkt" [=excellent in Swedish], but it is "ok"… I recall explaining something to my current superior, and he looked obviously sour and did not like what I was saying. But he repeatedly said "utmärket, utmärket", until I understood that it wasn't [excellent]… And yet a Dane himself would translate it as "excellent". ..And although we all speak good English, when it sounds like we [Finns] are being extremely impolite or stupid, it is not necessarily so, but we're translating from our own language. And that is quite a dangerous point.

Finally, Palin-Lehtinen pointed out that growing through mergers rather than acquisitions, as Nordea (or its predecessors) has done, is more demanding. Especially mergers between equals are seen as very difficult and time-consuming. As Palin-Lehtinen stated, "If Citybank were to acquire us, we would receive a manual. But here we have always created that manual, which naturally makes [the process] slower."

Whether domestic mergers have succeeded better than cross-border mergers is difficult to say, since Nordea has only recently engaged in the latter. Cross-border mergers have, however, been perceived to be easier than domestic ones. This is due to the reason that the nature of the cross-border mergers has been more positive than that of the domestic mergers. Domestic mergers in banking have been and still are largely "restructuring cases", which can result in significant numbers of lay-offs and which therefore entail a lot of emotion. Cross-border mergers, on the other hand, involve growth and the "building of something new", thereby constituting an easier situation.

<u>Management of Cultural Factors</u>

Although no official cultural analysis is made in the early stages of the merger, the people involved at that stage are, according to Palin-Lehtinen, experienced enough to take cultural issues into consideration. At the early stages, a "matter as small as the CEOs of the firms not liking each other" can prevent the deal from proceeding.

In the beginning of the negotiations leading to a merger, the representatives of the two parties together develop the vision for the new company, and this vision is then often referred to later in the negotiation phase. The rough draft of the vision is typically written on two or three sheets of paper, and it contains thoughts on what the new bank will look like and what its purpose and areas of emphasis will be. Although consultants will transform the rough draft into a more "flamboyant" final version and although the vision may be modified later as well, the basic ideas that come up during the vision building session serve as an important tool in creating the organizational culture for the newly merged company. In other words, the negotiators and the top management of both parties have a good idea, before the announcement of the deal, of where the deal will be taking them and what the new culture should be built on.

As soon as the deal has been announced, teams are formed to begin assessing the type and magnitude of cultural management needed. The management depends largely on the situation at hand. In the merger between SYP and KOP, for example, the whole personnel went through a 3-4 day culture seminar, while the culture seminar process in the Merita-Nordbanken merger only involved those that would later be in contact together, i.e. mainly people working at the corporate level. These seminars are organized by the human resource and the human development departments together with the top management of the company, whose participation is seen as imperative. In Erkkilä (2001), Palin-Lehtinen specifically stressed the importance of the behavior of, and the example set by, the managers in charge of the merger or acquisition (Palin-Lehtinen in Erkkilä 2001, 250).

Although company-wide communication can only take place after the announcement of the deal, the planning of the communication efforts begins earlier. Internal communication is thought to be crucial especially in cases, where restructuring and cost reduction is expected, and it is thus important that the communication is carefully planned and carried out.

All in all, Palin-Lehtinen sees cultural management as "terribly useful" if it is well incorporated in the overall management process. Palin-Lehtinen believes that it is possible to convey organizational culture change through the mission, vision and values of the company, even if this change "will, of course, not happen over night". What comes to national cultural differences, however, it is seen as useless to try and change them, instead "you just have to understand them".

Effect of Cultural Management on Post-Merger Organizational Performance

In order to assess whether its mergers or acquisitions have met their objectives, Nordea draws up business cases against which it can then compare the actual performance. The business cases relate to each business area in question, and the different business areas are responsible for their own performance. The business case comparisons are made for two or three years, although it has been acknowledged that the more time passes, the more the environment will change, and the benefit from these comparisons will become quite vague.

The management of cultural factors has been perceived to improve the post-merger organizational performance. Cultural management, according to Palin-Lehtinen, allows the two parties to get to know each other and to set mutual objectives together, and this, in turn, has been perceived to reduce conflicts. Also, as Palin-Lehtinen stated from her own personal experience: "If you perform [the cultural management] well, the [M&A] process becomes easier. It doesn't become a whole lot quicker, but it becomes easier".

A sound cultural management will also help in the long run – if, for example, the cultural integration has been well managed in one merger, the cultural integration of subsequent mergers will become much easier. This has, for example, been evident from Nordea's employee satisfaction indexes, which are partly based on cultural survey questions. The departments, where the earlier cultural integration has been successful ("where people already happily function in a Nordic way") have higher indexes than the departments that have not been as active in the earlier cultural integration processes.

Generally speaking, the mindset towards cultural differences in mergers and acquisitions in Nordea, according to Palin-Lehtinen, is that they have to be taken into account. The whole strategy of building a Nordic platform through which to achieve an important European foothold has been based on cultural considerations. The expansion begun with a Swedish partner "for the simple reason that although differences were known to exist, they were smaller than they would have been for example with the Dutch". In that sense, cultural issues in Nordea are very much thought to go hand in hand with strategic considerations and separating the two is not always perceived to be possible.

4.1.2.1 Merita

Merita was born from the 1995 merger between Union Bank of Finland (SYP) and Kansallisosakepankki (KOP). The purpose of the deal was to restructure the banking industry, as there was too much banking capacity in Finland. The other reason for the merger was the fact that "KOP was simply running out of options". SYP itself was not in a great state financially due to the recent banking crisis, but it was much better off than KOP. Therefore, although the two banks were approximately of the same size and the merger was dubbed a merger of equals, SYP held the stronger position. The two companies were very much related and it was essential, both psychologically and financially, that the two parties start working together without delay.

Although SYP was the stronger party, its intention, according to Palin-Lehtinen, was not to impose its own culture, but to "sincerely" try and develop the new Merita culture. The central tool for achieving this new culture was to create a new, common value base. The method used in integration was either to apply the best practice found in either party or to create an entirely new practice. (Palin-Lehtinen in Erkkilä 2001, 247-248). The result was that the SYP way of doing things prevailed in areas, where it had been stronger, i.e. the international and the large corporate sectors, while KOP had more influence in the retail banking sector. This, Palin-Lehtinen pointed out, had its effect on how the cultures in these sectors turned out to be. In some issues SYP was, however, keen on holding on to its own culture (a 3 by Palin-Lehtinen). One of these issues was the fact that SYP was more scrupulous in for example its accounting habits.

The main difference between SYP and KOP came up in the study conducted after the announcement of the deal concerning each party's perception of the other party. SYP was thought to be "cooler and more correct" ("SYP people give dry kisses on the cheek"), while KOP was thought as "more aggressive" ("KOP people swear"). Decision-making was very much alike in the two banks largely due to the rules and regulations of the trade. The board of directors in SYP was, however, as Palin-Lehtinen had learned, more "collegial and collectively responsible" than that in KOP, where the thinking was more of the line that "the boy does, if he succeeds, he will get a raise, if not, he will get the boot".

The merger was, according to Palin-Lehtinen, a "total shock" for the KOP employees. They had made a huge effort in order to save their company and suddenly were faced with a merger with their "worse enemy". The two banks had been each other's most important competitors for almost 150 years, and both the employees as well as the customers of each bank were strongly, sometimes even emotionally, committed to their own bank. The two parties were often perceived to form separate camps. (Palin-Lehtinen in Erkkilä 2001, 245). The SYP party initially had a positive mindset towards the merger, until they realized that the lay-offs actually involved themselves as well. The fact that the personnel of 18 000 had to be cut back by over 30% did not improve the mindset of either party. What comes to the attractiveness of the acquirer – "both parties despised each other". When inquired how keen KOP was on preserving its culture, Palin-Lehtinen rated it "absolutely a 5", implying that they held on tightly to their own practices.

The cultural management began with the analysis of the perception of differences mentioned above, conducted with the help of external consultants. The role of external consultants was perceived to be extremely important throughout the whole integration. The process with which the value base for the new company was to be created was called the KIDE process. The process began approximately three months after the announcement of the deal, i.e. after the decisions concerning the restructuring had been finalized ("because it is difficult for people to become motivated to a common organizational culture, if they don't know if they have a job"). The process was implemented in a "waterfall system", i.e. the top management participated first, which then conducted the discussions at the area manager level, which then took care of the task at the next level and so forth. The role and example of the leaders was very important. The meetings were held in groups of about 20, half of the participants coming from SYP and half from KOP. The groups were also mixed in terms of business area backgrounds to prevent the discussion from becoming too technical in nature. The sessions lasted for about two days, the first day concentrating on the perceived differences and the prejudices of each party and ending in the values, vision and mission of Merita. The second day was consecrated to building the new company. The sessions were repeated in the same groups about six months later. The process was thought to be time-consuming and exhausting, but it helped in speeding up the overall integration process.

The major goal of the merger was, in addition to restructuring the banking industry, to increase the company's volume, which is essential in the international banking business. The goal was met and the deal could be considered a success. Although the cultural integration was extremely difficult, it too, was considered a success. When Merita merged with Nordbanken in 1998, "it was truly a merger between Merita and a Swedish bank instead of a merger between two separate Finnish banks and a Swedish bank" (Palin-Lehtinen in Erkkilä 2001, 248).

4.1.2.2 Merita-Nordbanken

The merger between Merita and Swedish Nordbanken took place in January 1998 (announced in 1997). The purpose of the deal was to begin building a platform for Nordic expansion, which was in accordance with the strategy of both companies. The merger was thought to be a merger of equals – both parties were in a sound financial state, the Swedish party being just marginally stronger at that stage. The companies were very much related, operating in the same industry, i.e. banking, with involvement in life insurance. The only difference in the general operations in addition to the different home markets was Merita's fairly large involvement in real estate.

Merita, according to Palin-Lehtinen, was somewhat keen on preserving its own culture in this case (a rating of 3), but the main idea was to be equal and try to find and apply the best practices. In contrast with the SYP-KOP case, the intention was not to fully integrate the two companies. Retail banking, which is very local in nature, was not perceived to benefit from organizational integration ("branches in Odense and Kuopio have very little synergies to be found"), and therefore these operations continued in both countries at the customer interface level as they had prior to the merger. Organizational integration was, however, seen as very important in corporate functions and areas such as the large corporate customer sector, the international sector, the treasury and centralized production and support units (including the units supporting retail banking). In other words, integration took place in areas where synergies could be found at a Nordic or global level (e.g. merging the Singapore offices) or units which supported or intended to support business units at a Nordic level.

Furthermore, since the objective from the beginning of the deal was to create a Nordic bank, Merita-Nordbanken was seen as a step toward this objective rather than a final outcome. The intention was therefore not to create a new name or image for the newly merged company, and the local banks continued to operate with their old names, while a combination of the names was used at the corporate level. (Palin-Lehtinen in Erkkilä 2001, 249).

Cultural differences were anticipated both because of the different corporate histories and corporate cultures as well as the different nationalities of the two companies. Examples of differences encountered in the national cultures were differences in decision-making and the concept of time. A Swede tends to want to discuss matters beforehand and prepare, while a Finn acts and thinks later. Swedes become committed to the plans during the planning phase, Finns during the implementation. These matters have to be taken into account when for example setting timetables. In other words, if a decision is expected by a certain date, the Swedish party must be given more time to prepare than their Finnish counterparts. (Palin-Lehtinen in Erkkilä 2001, 251). Another difference encountered stemmed from speaking one language and thinking in another. Even small differences in expressions could cause grave misunderstandings and lead to problems.

According to Palin-Lehtinen, everyone at the management level involved in the merger was quite enthusiastic about it, as it was perceived to be a clear step towards the implementation of a Nordic strategy. The Swedish party would probably have preferred a merger with one of the other large Swedish banks, and it was concerned about the Finnish party's real estate holdings, but Merita was thought of as the "next best alternative". A rating of 3 was given to the question of how keen Nordbanken was on retaining its culture, since the equality and best practice –principles were again the driving forces.

The cultural management concerning the whole organization consisted of communicating the mission, vision and values of the newly merged company. Culture seminars were organized for senior management as well as for those working cross-border. Culture seminars were also arranged in different business areas, and specifically in the units that were organizationally integrated. The KIDE process developed in the SYP-KOP case was applied to some extent in the areas where cultural integration took place. These efforts were managed by the group executive management, the business area management (where the business areas were involved) and the human resource department.

The main goal of the deal was to begin building a Nordic financial services group. Other objectives included synergies such as larger production units (and thereby smaller cost per unit) and cross selling. The goals were met, and are still being met "increasingly every day". The deal could "definitely" be considered a success in the sense that it gave a good platform for new growth, but in accordance with the Nordic strategy, the deal has been followed by two other mergers among equals (with the Danish Unibank and the Norwegian Christiania Banken to form Nordea), and therefore "the total picture of the Merita-Nordbanken deal has become a little blurred".

4.1.3 Datex-Ohmeda

<u>M&A Process</u>

Mergers and acquisitions in Datex-Ohmeda (D-O) support the implementation of the company's strategy. The strategy, which is debated continuously at different internal forums, is not usually to achieve growth, but rather pertains to the core businesses of the company. If a gap has been perceived to exist or a section of the business needs to be accelerated, D-O will wait for an opportunity to arise, and seize it. In other words, the company does not proactively seek for target companies, and an "opportunistic dimension" is therefore involved.

D-O does not apply a documented process for managing mergers and acquisitions at a general level, including specific instructions on what to do. Instead, the company has created an "acquisition culture", in other words it employs a number of people with acquisition-specific know-how. When a new acquisition is planned, both people who possess prior experience in acquisitions, as well as new people are involved in order to maintain the pool of knowledge. Instrumentarium's global HR-director, along with a network of HR-people, takes part in the M&A activity from the start.

In addition to utilizing people with know-how when engaging in new acquisitions, D-O is assisted by several "internal benchmarking cases", i.e. the documented processes of previous acquisitions. These cases include the extensively documented post-merger management process of the Ohmeda acquisition, which is considered to be a sort of a "reference standard". And finally, D-O has built strong relationships with leading banks (such as Credit Suisse), law firms (e.g. Schermann-Sterling) and consulting firms (e.g. McKinsey and Mercer), whose services they rely on on a case-to-case basis.

What comes to consultants, in Erkkilä (2001) Ritvos pointed out that the need is not so much for the know-how of these experts, but to ensure that the process involves people who are not emotionally committed to the company. It is easier for these people to question issues and make more objective observations than for those physically and emotionally closer to the firm. (Ritvos in Erkkilä 2001, 217).

Although D-O does not follow a documented process on how to handle mergers and acquisitions in general, the guidelines on how to proceed are clear. According to Ritvos, D-O is very quick in its M&A activities compared to most of its competitors, which in turn is perceived to be an obvious advantage.

<u>Factors Affecting the Level of Cultural Conflicts</u>

The cultural levels that have been identified to affect mergers and acquisitions are national, industry and organizational culture. All of them have to be taken into account, specifically from the point of view of "what to do with these people or with us" in order to make the transaction as successful as possible. Although Ritvos stated that the importance of differences at each of these cultural levels varied from case to case and could therefore not say which affected mergers and acquisitions the most, he actually emphasized the differences in business culture in his examples, such as the one below.

In the Ohmeda acquisition, for example, Datex and Ohmeda operated in the same industry and had mutual customers, but as the former was focused in a business concentrating on ventilators and the latter in monitors, the difference between the two parties' way of thinking was considerable. "More considerable than the difference between Americans and Europeans." Meanwhile, they were surprised to perceive that there was a very small cultural difference between the R&D units of D-O and the American monitor technology firm Space Labs, which they acquired in 2002. The integration of the latter has been "surprisingly easy"; it has been "very easy to communicate, which comes in a way from the [mutual] understanding of the industry…". Some of this easiness can, however, be attributed to the fact that D-O learned to "understand America" during the Ohmeda acquisition.

When inquired about what actually causes cultural conflicts, Ritvos pointed out that a conflict is an extreme situation and that cultural differences rather emerge as miscommunication than conflicts. One of the factors brought up, however, was the issue of differing paradigms as presented by the following example:

> …When an ant is in a mug and someone is on the outside and a detail of the mug is being discussed, there may the perception that the color of the mug is such and such, and they may come to terms about it. But if the size of the mug or the size of the world in relation to the mug is being discussed, one doesn't ask questions but makes all sorts of assumptions. If the ant builds an airplane inside the mug, it turns out to be very different from the one built by the one outside, although they are both talking about making a journey around the world. These are the most difficult issues that can be seen for years…If the industries are even remotely different, then these are dominating [issues].

In addition to identifying the problematic behind differing paradigms, D-O has studied how differences in national cultures can affect performance. In order to do so, D-O has for example utilized the services of a consulting firm (owned by Richard Lewis), which specializes in cultural differences (e.g. the analysis of different national characteristics). Examples of differences in communication styles that can cause problems if they are not understood to stem from cultural differences were evident in the following account given by Ritvos:

> …When you listen to an American and what he has done and a Finn, you can easily get, as an external observer, a feeling that the American has accomplished a significant amount of things while the Finn hasn't done anything. But then, when you look at the results, you may notice that it was the other way around. …Or a Frenchman thinks that everybody's an idiot and that everything has either collapsed or is the other extreme, fantastic, nothing [in between]. And when you listen to a Frenchman fuss and abuse everything, when in the mood, then in engineering terms this signal has bias and static…and one has to learn to filter them in order to get to the core.

According to Ritvos, however, more important than the cultural background is the sociological profile (or the social behavior) and the personality of the individual. In other words, the same type of individual can be found in all nationalities, "among the Japanese, Americans and Finns alike".

And finally, in Erkkilä (2001), Ritvos stated that if the two parties in a merger or acquisition are similar in size or if the acquisition is otherwise significant in size or unusually complicated, understanding the other party's differences becomes increasingly important. (Ritvos in Erkkilä 2001, 216).

Management of Cultural Factors

The management of cultural factors in D-O very much pertains to the integration phase. The company follows an established and very structured integration process, which includes cultural considerations. The process begins right after the announcement of the deal by a 100-day integration planning process. This planning process involves a number of integration teams and regular meetings between team leaders and management.

External consultants are also employed after the announcement of the deal in order to assess the cultural differences between the two parties. Cross-cultural training sessions may then be arranged according to the findings of the consultants.

According to Ritvos, the most important tools in managing cultural factors are 1) A "very transparent" communication of the issues that can generally be communicated and 2) The fact that all decisions are made very clear and simple and that they are based on concrete facts. These facts should be such that they are understood in the same manner by all (e.g. arithmetic numbers, universal units of measurement or specific customers).

In Erkkilä (2001), Ritvos claimed that the role and the personality of the integration leader are significant in mergers and acquisitions. He also maintained that the integration should be carried out swiftly, although he acknowledged the fact that the creation of common values can in practice usually only take place after the operational matters and the organizational structure have been attended to. Furthermore, he pointed out that if the acquired company is clearly smaller than the acquirer, a discussion on values does not normally take place as such, since the acquirer's values tend to be adopted by the acquired party. (Ritvos in Erkkilä 2001, 218-219).

Effect of Cultural Management on Post-Merger Organizational Performance

The objectives of mergers and acquisitions in D-O include financial goals such as synergies pertaining to growth in sales and reduction in costs. Objectives associated to the integration management include objectives concerning the headcount of the company. The assessment of whether the acquisition process has succeeded is an on/off issue – whether the acquisition was made or not. The measurements of the implementation of the integration consist of different operational objectives, such as whether salaries are paid without disruption and whether accounting practices are integrated efficiently and so that they comply with all local laws.

According to Ritvos, the management of cultural factors has "absolutely" improved the performance of mergers and acquisitions over time. Cultural issues are generally given a lot of attention in D-O, and the personal opinion of Ritvos is that it is "a dominating factor" in mergers and acquisitions along with the strategic fit. Cultural differences are also perceived to be "a central reason that may screw up the post-merger management" and cause very expensive mistakes, the other central reason being unclear objectives. Cultural differences have, at some point, even been the reason to abandon a deal.

As a point of interest to conclude the general section on Datex-Ohmeda, the company is about to face a new challenge in the context of mergers and acquisitions. General Electric (GE), which is one of the largest corporations in the United States (310 000 employees, net sales €123 billion in 2001), has offered to acquire Instrumentarium for €2 billion (Raeste & Rossi 2002, D1). The deal will be realized as long as at least 80% of Instrumentarium's shareholders consent by the 11th of April 2003 (subject also to the authorities' approval) (Raeste 2003, D3). What the American giant will do with its acquisition, once the deal is realized, remains to be seen.

4.1.3.1 Engström

Engström was one of the business units of the Swedish multinational Gambro Ab. Engström was focused in anesthesia and critical care, a business area in which Gambro no longer wanted to operate. At the same time Datex had, after strategic deliberations, come to the conclusion that expanding its operations from anesthesia to critical care was desirable. And therefore, as Engström was up for sale, Datex seized the opportunity to begin its expansion in this field by making the acquisition in 1994.

The deal was considered a pure acquisition – Engström was clearly smaller than Instrumentarium, and also smaller than the Datex unit, the number of employees being around 500 compared to Datex's 700. They were also in a considerably poorer financial state (approximately at break-even) than Datex. The two parties operated in the same industry and in a very similar manner, in other words they both independently engaged in production, R&D and global marketing. Their products were partly overlapping and partly supplementing.

The Datex culture was very much thought to be the dominant culture of the combination, and when inquired how keen Datex was on imposing its own culture on a scale of 1, not at all, to 5, very much, Ahjopalo rated it a 4. It was also considered very important that the two parties work together in terms of organizational integration, as for example the aim was to have a mutual sales channel so that from the customer's point of view, there would be no difference between the two.

Engström's headquarters and factory were located in Sweden, and although national cultural differences between Sweden and Finland were acknowledged to exist, they were perceived to be such that "one could live with them". A more important difference was perceived to stem from the fact that Engström had not been one of Gambro's core businesses, and had not been invested in for a long time. It was therefore believed that a certain ambition and "dynamic grip" on things, which Datex was thought to possess, would be missing. On the other hand, as Engström's products were more critical (life-supporting) in nature than those of Datex, it was believed that Engström would have a strongly established quality- or safety-oriented culture, more so than Datex. And finally, the acquisition incorporated a production and subcontracting unit in Italy, which they only had very vague information on and which was known to have strong local bonds. They therefore assumed that they would encounter problems in its integration.

Because of the fact that Engström had been "a sort of an orphan" in Gambro, they were quite enthusiastic about being acquired by a company that focused in their line of business. They also knew Datex beforehand, and perceived it to be an attractive company. Because Engström had previously had to operate on scarce resources, the decision making had been more financially oriented, but otherwise Ahjopalo did not believe that the level of freedom to make decisions at Engström changed much after the acquisition.

There was some desire by the Engström people to preserve their own culture (rated a 3 on the subjective scale by Ahjopalo), but the need to impose Datex's culture became evident especially from two issues: First of all, the Swedish decision-making mode of discussion, negotiation and consensus could not be applied in some of the "painful decisions", such as the termination of certain projects, but a more direct way of management was required. And secondly, the expectation that Engström would have a stronger quality culture than Datex turned out to be false. Instead, Datex had to actively drive the culture of quality and listening to the customer into the acquired unit. Engström also needed help from Datex in solving some of the major issues it had with some of its products.

No process as such was followed in the implementation of the acquisition, but instead it was, "if not improvised, pretty much planned as we went". Right after the announcement of the deal, a consultant was hired to assess the cultural differences between the two firms. But since the findings of the consultant were that despite some historical considerations, the cores of the two cultures were quite similar, not much cultural management was needed. Some cross-cultural training was utilized, but in a very small extent.

The most important goal of the deal was to achieve supplementing product know-how, a stronger sales channel and an installed base of equipment (i.e. customers, who already owned these products). Another motivation for the deal was the fact that the Engström name was perceived to have a certain value as a brand. The goals pertaining to building the sales channel were attained, but the products and the level of product know-how turned out to be a disappointment. They had not been as valuable as Datex had anticipated. The deal did therefore not financially meet all the expectations, but it took Datex strategically a big step forward in the right direction. If the same resources had been invested in for example organic growth, Datex may have been able to get quite far as well, but how far, is hard to say.

4.1.3.2 Datex-Ohmeda

The Ohmeda acquisition took place in 1998, the closing taking place on April 4th. Ohmeda was the medical business unit of the British industrial gas company BOC Group Ltd, which actually sold Ohmeda to a consortium of three different acquirers. Ohmeda was therefore split into three, Instrumentarium obtaining the Ohmeda Medical Systems Division (MSD) and Specialty Products Division (SPD). SPD continued operating as an independent unit, while MSD (which will simply be referred to as Ohmeda from now on) merged with the Datex-Engström (Datex) unit. (Ritvos in Erkkilä 2001, 200).

The fundamental, and strongly strategic, purpose of the deal was to assure the acquiring company's position on the US market. Ohmeda and Datex operated in the same industry and customer sector and had different, but supplementing technologies. The organizational integration of the two parties was perceived to be crucial, as the distribution channels were united.

The transaction was considered to be a merger amongst equals – Ohmeda was clearly not financially as well off as Datex, but it was almost twice the size. Following the merger amongst equals –philosophy, the management, and especially the integration management, did not intend to impose the Datex-culture on the acquired company, but rather look for best practices from both cultures and allow some sort of a cultural variation to live. The general opinion, however, as well as the gut feeling of the Datex managers, was that even though Datex was the smaller party, as the owner and the driver in this case, its culture would prevail (a rating of 4 was given by Ritvos in how keen the acquiring firm was on imposing its culture).

The central difference between the two parties was that the Ohmeda people were thought of as "farmers" while the Datex counterparts were "hunters and inventors". In other words, Ohmeda was in more of "an on-going, installed base –business", while Datex was more concerned with finding new customers. Differences in the way of thinking also came from the differences in ventilator versus monitor businesses, as discussed earlier. The level of freedom in decision making in Ohmeda was perceived to be similar to that in Datex, although it, along with the level of responsibility, was increased in some areas after the acquisition.

In addition to operating in the same industry and having the same customer base, the similarity between the two that facilitated the implementation of the deal was the fact that both parties shared the value of operating in an ethical manner, appreciating the customer and emphasizing the importance of patient security. (Ritvos in Erkkilä 2001, 219). This ethical reputation made Datex attractive and helped in building a positive response among the Ohmeda employees towards the acquisition. The Ohmeda top management, however, somewhat resisted the acquisition, because they lost a great deal of their power as the company was split into three (as explained above). When inquired about how keen Ohmeda was on preserving its culture, Ritvos responded that it was at least a 4, in other words they were quite determined to do so.

To manage the integration, D-O applied a structured 100-day integration planning process, involving over 20 integration teams. The team leaders and the management had a "massive coalition meeting" once a month. The aim was to have a 50-50 balance of personnel from both sides present in these meetings. The responsibility of implementing the plan was given to the line organization. The follow-up was the responsibility of a Datex-Ohmeda management group that consisted of 6 or 7 people, two of whom came from Ohmeda. Consultants were employed and the role of strong leadership was emphasized (Ritvos in Erkkilä 2001, 216-217).

Communication was an integral part of the integration efforts. It was perceived to be very challenging and was therefore carefully planned from the very beginning. The objectives set for the communication efforts included openness, speed and consistency between internal and external communication. (Ritvos in Erkkilä 2001, 201). The initial similarity between the value bases of the two companies helped in the decisions concerning integration in the beginning of the process, but a deeper discussion on values is still an on-going issue in different levels of the company. (Ritvos in Erkkilä 2001, 219).

The objective of the deal was to gain an increase in market share, but also included a number of specific, mostly financial objectives. These objectives were attained at 75%. The acquisition, according to Ritvos, could be considered a success. The integration was perceived to have proceeded quite nicely, but it did, nevertheless, take three years instead of the two allocated to it, in other words a year of efficient work was lost. The fact that the integration did not go as smoothly as had been planned was attributed to poor operational management and the underestimation of the challenge.

4.1.4 Outokumpu

M&A Process

Most of Outokumpu's M&A activity is handled by the business units of the company, which are supported in this activity by the business support unit (BSU) of the corporation. The BSU offers for example services in matters pertaining to law and human resource management. The corporate management only becomes involved in mergers and acquisitions if the deal is important enough to affect the business portfolio of the corporation.

As was mentioned in the introduction of the case company, mergers and acquisitions are an important part of the company's strategy of growth and transformation. The acquisitions have to reflect and be in accordance with the objectives described in the strategies of the business units in order to be approved by the corporation.

Outokumpu employs an investment manual that describes how different issues should be handled when engaging in mergers and acquisitions. A documented integration process consisting of a checklist of things that have to be considered in integration is at the moment in the final stage of being documented and added to the investment manual. It incorporates mostly the integration processes of different functions, such as IT and accounting, but cultural issues have also been included.

Factors Affecting the Level of Cultural Conflicts

Although the fact that all companies have their own distinct culture has been acknowledged ("if we are located in Olari and acquire a company in Matinkylä, we already succeed in encountering cultural differences"), national cultural differences, and specifically the local habits or way of doing things, are perceived by Lassila to affect mergers and acquisitions the most. An example of how organizational cultural differences can, however, come to play, involves the acquisition of small companies. Lassila stated that a problem large corporations have is that they "kill successful small companies" by acquiring them. These firms (which employ less than 100 people) often operate in a very entrepreneurial manner, and once they are incorporated and obliged to operate according to the habits of the corporation, the whole essence of the acquired firm is lost. Unless there is a well-determined need for a specific know-how, the acquisition of very small units should, according to Lassila, be avoided all together.

Even though Outokumpu has operations in over 40 countries (Outokumpu 2002), the largest "culture shocks" involving national cultural differences have originated from Sweden. The initial expectation when dealing with Swedes is that Finns and Swedes are very much alike. But as Outokumpu learned from its 1985 acquisition of a Swedish manufacturer of copper products which was much larger than the equivalent unit of Outokumpu, this is not always so. Lassila describes:

> When we started to put these [two companies] together, we went in there in this Finnish way and told them that this is how reporting is done and this is the way in which things are done, and they listened and nodded and everything, but nothing happened. They kept sending us their old reports and attached were some Outokumpu 'blanketter', but it didn't get through, this [message]. Nobody said no, but nothing happened....And we have also learned that they do not make decisions in the way that "this will be decided in this meeting"...but, well everybody knows this 'diskutering' ...which requires a different approach and well, time. So even this close, and the differences are gigantic.

Another cultural factor that has perceived to affect mergers and acquisitions is language. English is the official corporate language, which is used even when dealing with Swedes. The threshold to acquire companies in countries where English is not widely spoken is much higher than in countries where it is. In the former, there may only be a few people in the acquired firm with whom one can communicate, and who can be relied on to "forward the message".

<u>Management of Cultural Factors</u>

The attitude towards cultural management has changed significantly from what it was 20 years ago. At that time, Outokumpu thought itself to be the party that always knew what to do and the thinking was that "the acquired be humble". Nowadays, the sincere intention is to look for and apply the best practices found in either party.

Along with the change in attitudes, the integration management has changed considerably in the last few years. Earlier, the organizational structure of the corporation was such that the different business units operated independently, each in their own way. When a company was acquired, "business continued as usual" in the acquired company. Nowadays, largely due to advances in information technology, the corporation has been restructured in order to benefit from the synergies that can be obtained by integrating different functions. This means that integration processes have been harmonized and the aim is to find one or a few ways of doing things, and variations are not accepted unless they are clearly justified.

The due diligence process in Outokumpu includes some questions on cultural matters, but the main cultural management pertains to the integration phase. The tools to manage cultural differences in integration include enhancing communication skills as well as other training programs, where cultural issues are taken up among other things. Timely communication is also perceived to be an important tool. It is exercised through e.g. internal magazines, the intranet (such as the Q&A section) and different kinds of meetings.

Cultural management is the responsibility of the acquiring business units, but as stated earlier, they are supported in their activities by the BSU, in this task especially in human resource management issues.

Effect of Cultural Management on Post-Merger Organizational Performance

The objectives set for mergers and acquisitions are mostly financial in nature. A follow-up is performed after each merger or acquisition in order to assess its outcome. The fact that a large proportion of these transactions are failures or disappointments ("you pay too much for them and they never produce quite as much as was anticipated") has been acknowledged by Lassila. It is, however, very difficult to determine the actual percentage of failures or disappointments, as the acquired companies are often split apart and dispersed and do therefore not continue operating as they did before. The role of cultural issues in these disappointments is especially hard to determine.

The management of cultural factors has been perceived to improve the performance in mergers and acquisitions over time, which has been attributed to the experience gained in this area over the years. Whether it has been proven to improve performance is not so clear. As

Lassila stated: "When you manage to avoid one problem, you then of course bang your head against another". But generally speaking, Lassila is strongly of the opinion that mergers and acquisitions are now managed much better than they were 20 years ago.

4.1.4.1 Embedded Case One

Case One was the outcome of the 2001 merger (announced in September 2000) between Outokumpu's business unit Outokumpu Steel Oy, located in Tornio, and a stainless steel company, which had been formed in the earlier merger between a Swedish and a British steel company. The British owner later merged with a Dutch company. Initially, Outokumpu obtained a 55% ownership of the newly-merged company, but was able to acquire the shares kept by the selling party (i.e. the 23 % of the shares of the next largest owner) in June 2002. Since then, Outokumpu has been obligated by legislation to redeem the minority shares and by November 2002, had claimed a 99.8% ownership of the newly-merged company.

The purpose of the deal was to obtain growth, which is in accordance with the overall strategy of growth and transformation of the company. The background to the deal was the consolidation trend in the world's steel industry. There have been approximately 20 stainless steel companies in Europe compared to the four significant ones now, which together produce 50% of the world's stainless steel. In order to achieve this position in the stainless steel business, Outokumpu had to engage in this merger to obtain the growth in size needed. In addition to the strategic aspect, another motivation for the deal was that the acquired party had a wide customer base and was perceived to be efficient in marketing. Outokumpu Steel, in turn, focused on the beginning of the production process, in other words was efficient in the production itself. The two were therefore considered to be a "perfect fit".

The deal, as described above, was considered to be a merger. Outokumpu Steel was, along with the Spanish Acerinox, the most profitable stainless steel producer in Europe. The acquired party, on the other hand, was twice the size in terms of volume, but it was not as profitable.

Now that Outokumpu is in charge with a near 100% ownership, it has decided that the management of the newly-merged company, which has been performing well since it was founded in 2001, will continue as is and the company will maintain its own brand. The Outokumpu name is visible only as a small text underneath the newly-merged company's logo. The newly-merged company has also been perceived to have built a strong organizational culture in the past year and a half, and therefore, what comes to business operations, Outokumpu does not want to impose its own culture. The company is, however, now in the midst of integration to the corporation and "total integration" is intended for all the areas in which it can be justified (such as systems and the linking of the firm to the corporate service centers).

The comments given by the Outokumpu CEO Jyrki Juusela in a press release following the acquisition of the full ownership corroborate the facts above:

> I am very pleased that we have this opportunity to go for the full ownership of [the newly-merged company]. The development and integration within [the newly-merged company] has been carried out in a very professional and successful way – the company is certainly going to be the best in stainless. As one of the core business areas within the Outokumpu Group, [the newly-merged company] will continue to pursue its business as usual. It will under its current management continue to operate in the market and will also retain its own brand name. … (Outokumpu 2002).

According to Lassila, the cultural differences encountered so far involve the Swedish counterparts, while no major issues have come up with the British. One of the great surprises was the way in which Sweden reacted to the lay-off of 200 people in a small industrial locality. The lay-offs were based on clear rational considerations, but nevertheless Outokumpu had to justify this decision in television programs in Sweden and even the Swedish prime minister became involved in the matter. Outokumpu had not anticipated what an important issue this could become.

Another cultural challenge has been encountered in creating corporate values that will be in accordance with the cultures of all the parties involved. Outokumpu has recently undergone a large process involving 3000 people to determine what the values of the corporation are (presented in the introduction of the company). The merged company employs nearly 9000 employees compared to the total of 19 000 or so (Outokumpu 2002) employed by the corporation. Out of these 9000, a large part consists of Swedes. One of the values discovered from the survey mentioned above was the emphasis on the achievement of the individual inside a team. This value has been perceived to be unacceptable for the Swedes. The challenge now lies in rephrasing the values so that they do not clash with any of the parties involved.

Outokumpu was perceived to be an attractive acquirer, and the fact that it was Outokumpu that the newly-merged company was affiliated to was not seen as a problem. However, since the newly-merged company is losing its status as a company listed on the stock exchange (both in Stockholm and Helsinki) in the near future, the challenge in this matter is to maintain the motivation of its management and employees as one of the business units of a corporation. The degree of freedom in decision making in the newly-merged company will, for example, decrease somewhat after it has been unlisted. There has been some resistance to change, but it has been attributed more to jealousy between different units than the actions of Outokumpu (a 3 was given by Lassila on the question of preservation of one's own culture).

The integration process has only recently begun, and as was explained earlier, the intention is to allow the newly-merged company to continue its business as usual to a large extent. The cultural issues that have come up so far include the discussion on the new corporate values that would suit all parties involved presented above as well as the question of how the decision to close the newly-merged company's headquarters in Stockholm will affect the morale of the Swedes.

The goal of the deal was and is to double the size and profit of the stainless steel business. Whether this goal will be attained, is too early to say. Outokumpu is now number one or two in stainless steel in the world what comes to both size and profitability. But whether the newly-merged company will perform as well as Outokumpu anticipates after the investment program of another €1 billion, depends both on the markets (the business is super cyclical in nature, in other words it fluctuates considerably even in a short period of time) and the way in which the new technology involved will perform, as it has not been in use before.

4.1.5 Case Company A

M&A Process

Mergers and acquisitions are not generally a corporate level exercise in Company A, but rather an activity undertaken by the different business units of the company. The business units are supported in their M&A activity by an in-house M&A team, which may be described as an internal M&A consultant. The M&A team operates at the corporate level.

The company has a documented M&A process, which the acquiring units may refer to when engaging in M&A. This documented process is written at a relatively general level as mergers and acquisitions are perceived to be somewhat unique events, the object of the acquisition being different each time. The documented process incorporates issues such as what should be thought of and done before the acquisition, how to proceed in negotiations and where and how to have decisions approved. There is also a separate process description for the integration phase, with instructions on e.g. how to start integration and when to begin planning, but again with few details, as every operation is different from each other. The actual documented process is confidential, and therefore cannot be presented here, but generally speaking it includes the following phases: strategy, search & screening, negotiation & due diligence and integration.

<u>Factors Affecting the Level of Cultural Conflicts</u>

Cultural differences have been perceived to exist at various levels, and the challenge, according to the interviewee, lies in taking all of these levels into account. The levels discussed by the interviewee were national, industry, business and organizational culture. National cultural differences come across first and foremost as differences in attitudes and values. Industry-specific cultural differences come to play when the goal of the merger or acquisition is diversification into an entirely different industry sector. Differences in business culture, on the other hand, are separate from national and industry culture. They are differences that come for example from moving from retail business to infrastructure business, even if both of these businesses were in the same country and even the same industry sector. Cultural differences at the micro level, i.e. organizational level, include differences in decision making modes, organizational structure, the way in which things get done in the company, the daily conduct of the employees, relationships in superior-subordinate teams, and the company's values.

The level of cultural differences that has been perceived to affect mergers and acquisitions the most is the organizational culture. This is because the people working in the acquired company represent their own national, industry and business culture in the way in which they operate in that specific company. In other words, organizational culture is "the nucleus" of the cultural differences. Organizational culture is also thought of as the most difficult level of cultural differences that the company encounters, compared to for example national culture, on which a lot of written material is available (on e.g. the issue of stereotypes, although a note was made that one should be careful not to rely on them). Furthermore, differences in industry culture, such as differences in the cyclical nature of the two industries, are more evident than differences in organizational culture. This is so especially at the onset of the deal, when very little contact with the target company has been established and it is "extremely difficult and challenging" to analyze and determine what the organizational culture is like and whether there is a cultural fit.

Quite a lot of thought has been given to the factors that can turn cultural differences into cultural conflicts in Company A. The most important ones, as explained above, are perceived to come from organizational cultural differences. If, for example, the acquired organization is used to functioning in a very hierarchical and authoritarian way, it may be difficult for the employees to adapt to a network organization with virtual teams that are very "self driven". Due to the fact that orders are not handed down to them as they were before, the efficiency of the new employees may seriously be reduced leading to for example a prolonged time to market of products.

Another issue that was brought up that had often been come across was "a matter as simple as" meeting habits. Some people are used to very structured meetings, where the agenda is handed out before the meeting, and everyone can prepare their presentations beforehand and "the meeting is over in an hour", while others do it in a more "spontaneous" manner, by "meeting in the morning and spending the day together discussing the matters and turning them over ten times".

The perception of the attractiveness of the acquirer was also identified as an important factor affecting the level of cultural conflicts. The interviewee explained this with a nice analogue:

> It is said that a company has a certain value as an employer. Much in the same way as a product has a brand. In that sense, if you were…the owner of a small chain of stores and you were acquired by Valintatalo or Stockmann, your employees would certainly be more proud if they had been acquired by Stockmann instead of Valintatalo.

Furthermore, according to the interviewee, one should remember that in acquisitions, the employees of the acquired firm do not become a part of the acquiring company voluntarily. They may like the acquiring company, and might have liked to apply for a job there under different circumstances, but in this specific situation they have not. Therefore one can always expect some resistance to change, as people are "forced" into doing something.

The company language in Company A is English, and as to yet they have not acquired a company where this has not been so. National languages have therefore not been perceived to cause problems in mergers and acquisitions. However, the use of professional language, and more specifically the widespread use of abbreviations of Company A, has been found to be challenging for the acquired party, and therefore Company A has a "dictionary" available for its employees on the intranet.

A comment was also made on the fact that integrating acquired units that are much smaller than the acquirer is easier than units or companies of equal or larger size, merely because the initial expectation of the smaller units is to be completely integrated. In bigger cases, a new organizational culture should be created, because it is difficult to rationalize "why we should become a part of you, although we are bigger than you?".

Finally, attention was drawn to the issue of whether it is easier to enter culturally distant versus culturally close countries. The perception was that when acquiring a company in a country that initially seems strange, more attention is paid to cultural issues and they are then managed more carefully. When entering a culturally closer country, such as Sweden, it is very easy to think that the cultures are alike and these issues are easily "brushed aside", which will cause problems. But in the long run, the integration is easier if the cultures are similar in the first place, as long as it is kept in mind that differences do exist. When comparing the success of cross-border acquisitions to that of domestic acquisitions, however, the interviewee could not say that either had been more successful.

<u>Management of Cultural Factors</u>

The management of cultural factors in mergers and acquisitions in Company A normally begins in the search & screening phase of the M&A process. The strategy phase could incorporate some cultural speculation in situations, where the company was acquiring geographic presence, but the company has not traditionally been involved in such acquisitions.

In the search and screening, cultural issues do not affect the "short list" of target companies. However, if the analysis shows that the candidates are equally attractive, a desk study including cultural issues is conducted (to the extent in which one can be conducted at such an early stage of the process), in order to compare the cultural environments of each.

At the stage where the company engages in negotiation with one of the target companies, the contact surface is much wider and it is easier to determine what the company is truly like. At this stage, all the representatives of Company A involved in the acquisition have been instructed to pay attention to cultural issues, and based on these perceptions, a synthesis on the organizational culture of the acquired company is made.

Cultural differences per se that have come up in the due diligence process have not as yet been the reason to abandon a deal. The primary reason for cultural evaluation at this stage is to prepare for integration. However, if the preferred target company would turn out to be one that simply represents values so different or conducts business in such a different way from Company A, culture could become a deal breaker. Or, if this company was perceived to be genuinely attractive otherwise, another type of deal could be considered, such as a holding-company strategy, where the other company could be held at "arm's length".

The integration phase is where the cultural change process begins. The level of integration desired is dependent on the case at hand. If, for example, the purpose of the deal has been to acquire a company with a well established customer base, the aim is to integrate that company internally only, to the point where it can operate together with Company A, while keeping its external activities intact.

The first cultural management activity performed in integration is a "current state –analysis". As soon as access to all the employees of the acquired company has been established, a company-wide study is conducted and analyzed. The integration process is then tailored to suit the needs of the case at hand.

One of the tools used in cultural management is a variety of meetings, where the new people can come in contact with the "old" people – meetings in small groups, big groups, meetings with management, with HR-people, "welcome to the house" –sessions and other training sessions (including cross-cultural training). The "welcome to the house" –sessions include issues such as learning how things are done in the company, where one can find help and instructions, what it is like to work in a matrix organization, what is expected of the new employees and how they are expected to conduct themselves. The cultural training sessions can be divided into two types: some are based purely on stereotypes, "those Hofstede things", and some are derived from the cultural comparisons made between the two parties. Both parties also participate in the latter sessions. Finnish culture is always a part of the sessions, because of the fact that a large number of the work force is located in Finland.

Another tool is the so called "buddy-system". Normally the aim is to transfer "old" employees to the newly acquired firm so that approximately 10% of the new population consists of people, who already know how to operate in Company A. They can then act as tutors to the new employees. This is often done so that one Company A counterpart is assigned to a group of new employees (e.g. 5 people per tutor), who can then explain and show how things are done in practice.

The importance of speed in the integration management was also highlighted. The interviewee claimed that "a burning platform" should be created in order to build motivation for the change process and effectively utilize the initial enthusiasm often experienced at the onset of an acquisition.

And finally, one of the most important tools is communication. As the interviewee put it, "communication can never be overemphasized". Communication is practiced in both a top-down and a bottom-up manner, as feedback from the employees is also considered important. The communication methods and channels used vary from the face-to-face meetings discussed above to video conferences and written material. The aim is to have constant communication:

> The most important thing is to regularly and consistently communicate with those people… so that they do not feel left alone. Even if you don't have anything new to say to them for a week, it is important to tell them that "nothing special is going on, but how are you" the next week, because otherwise people start wondering what's happening now.

Effect of Cultural Management on Post-Merger Organizational Performance

Every merger and acquisition has to have clear goals from the start in order to be approved by the company. These goals, whether they are financial, market-related or other, should also be quantifiable so that one can actually verify to what extent they were attained. Furthermore, the integration process itself should have certain measurable goals as well. The measurements used to determine the success of the integration include issues such as whether a certain product was launched on a certain date or whether it was done earlier/later, how many "good" people were retained and how many days it took to integrate the accounting practices.

Over time, the management of cultural factors in the M&A process has "without doubt" been perceived to improve the post acquisition organizational performance. Earlier, when Company A did not have a centralized M&A team, the experiences and know-how obtained from these transactions stayed behind in the acquiring business unit and could only be utilized to a very small extent in future mergers and acquisitions. Now, the level of know-how in the M&A team is increased with each new transaction, making the next merger or acquisition that much easier. This positive development has been evident from for example HR-figures, such as the better post acquisition retaining of personnel, as well as the increased effectiveness of the acquired units (e.g. how well the production timetables are met).

All in all, the importance of the effect of cultural differences on the success of mergers and acquisitions has been acknowledged in Company A and especially in the M&A team. However, as the acquisitions are always implemented by the acquiring units, the degree to which the suggestions of the M&A team are heeded depends largely on how receptive the leader of that unit is to human resource issues. Furthermore, cultural issues are not perceived to be the primary reason behind failures in mergers and acquisitions, but they are important:

> If you manage [cultural differences] badly, then...you may lose people etc., but if you manage them well, the whole acquisition or even the integration may still be a failure. You cannot save [the acquisition by managing culture] if something is wrong with the foundations [of the deal]. But you can destroy a lot [by mismanagement] even if the foundations are fine.

4.1.5.1 Embedded Case X

Case X was an acquisition that took place in the United States. The purpose of the deal was to supplement the product portfolio of Company A.

The intention of Company A was to integrate the acquired company so that the acquired firm would adopt the internal practices exercised by Company A. However, because one of the main reasons for the acquisition was the acquired company's competence in a different customer sector, the idea was to keep the organizational culture pertaining to the external practices of the firm intact. In terms of organizational integration, it was not seen as important for the companies to work together initially, because of the complementary nature of the two businesses. The plan for the long run, however, was that the two firms would start working closer together in the future, and therefore the need for future organizational integration was acknowledged from the start.

The anticipated cultural differences were more prominent than the ones actually encountered. The acquired company was an American company that was predominantly Indian, and that had a subsidiary in India. National cultural differences were therefore expected. The major cultural difference came from the fact that the company employed a number of people from the same extended family, and was therefore a very tight community. The level of commitment and the way in which the job was done, however, was similar to that in Company A. The organizational culture in the acquired company was more controlled and hierarchical than that of Company A, especially in the Indian subsidiary.

The mindset of the people in the acquired company towards the acquisition was generally speaking very enthusiastic and Company A was a firm they appreciated. According to Company A's press release on the acquisition, the president and CEO of the acquired company stated:

> As a recognized leader and truly global organization, [Company A] has proven themselves as technology leaders and innovators. We are very pleased to be joining forces with [them] …

Although there were some practices that the people in the acquired firm did not find appealing, there was not too much resistance to change in general. When asked how keen the other party was on preserving their own culture on a scale of 1 (not at all) to 5 (very much), the interviewee chose 2, and explained that it was quite an easy target to integrate, but that they had earlier experienced 1's as well as 5's.

For the implementation of the acquisition, an M&A process was followed. Exactly what was done and by whom is confidential, but the management of cultural factors included the following: After the announcement of the deal, the acquired company was included in the planning process to ensure their commitment to the plan as well as to learn to know them and their practices and to exchange information. These planning sessions resulted in a detailed action plan including responsibilities, timetables and milestones as well as the tools with which to measure how the goals would be attained. The implementation of the plan began as soon as it was ready.

In addition to getting to know the people in the acquired company through mutual planning, a study was conducted to evaluate what the other party thought and what were the practices they were used to. An issue that came up in this study, for example, was that they were dissatisfied with some of their own practices and wanted help in solving these problems. Training sessions were then constructed in accordance with the findings of the study. Other sessions included a change management training course, explaining e.g. how people normally respond to change, and a "multicultural awareness" course, including issues such as Finnish culture, Company A's way of doing things as well as working in a network organization. The acquiring business unit, the M&A team, Company A's training center and the HR-department all participated in organizing these sessions. After 6 months, a new survey was conducted to see how things had changed and how the results correlated with the results of employee satisfaction surveys conducted (once a year) elsewhere in the company.

The specific goals of the acquisition are, once again, confidential, but it can be said that some of the goals were not met, while others, such as integration objectives, were both met and exceeded. The fact that some of the goals were not met could not be blamed on cultural issues or problems with integration, but rather on unpredictable changes in the markets. Due to this market situation, the deal could not be considered one of Company A's "flagship deals", but it was a success in the sense that Company A did obtain the competences it had set out to acquire.

4.1.5.2 Embedded Case Y

Case Y was also an acquisition of a company in the United States. The purpose of the deal was to acquire new technology, a sort of an add-on to company A's product.

On a subjective scale of 1 (not at all) to 5 (very much), 5 was said to represent how keen company A was on imposing its own culture on the acquired company in this case. It was also seen as crucial that the acquired company and the acquiring unit work together in terms of organizational integration.

Company A did not expect to encounter large cultural differences due to the fact that the acquired company was located only about 80 kilometers from the acquiring unit. It was anticipated that the transaction would be quite easy. Although the acquired company was in a sound financial state, and was therefore not forced to sell, the people in the acquired firm were nevertheless at first "extremely enthusiastic" about the acquisition. They also perceived Company A to be very attractive. The acquired party was actually more enthusiastic (they were ready to "join forces to compete with a mutual competitor") about the acquisition than the acquiring unit. The major cultural difference became evident from this very way of reacting to the acquisition. The interviewee explains:

> …It was a group of people, who were very much extroverts and propeller cap engineer types, a little eccentric, and really, if they became excited about something, it was really then at 200%. Even more over the top than the normal American. And on the other hand, in addition to [the firm] being full of these Gyro Gearlooses [Pelle Peloton], meaning these very individualistic individuals, they were, one can't say exactly childish, but in the sense that if something did not go exactly as they had thought, they would then stomp their feet, in the line of throwing a tantrum. And of course, because grown ups were in question, threats about involving lawyers in the game were made and very small things became senselessly big things. In the line of: someone would lose their office chair, or, I don't recall that office chairs were discussed, but issues of this degree.

The attitude started changing from "over-enthusiasm" to frustration quite early, about two months from the closing. According to the interviewee, this may easily take place if expectations are unrealistic in the beginning. In this case, the early "hype" led to frustration when people realized that things did not happen as quickly as what they had been used to and that their "wonderful ideas" were not implemented as readily in the larger entity. Earlier, they had been freer to make decisions by themselves.

When it comes to the other party's willingness to preserve their own culture, at first it did not seem as if it was important to them. The acquired company's employees had been involved in several acquisitions, and knew to some extent what to expect. In general, the interviewee would rate this issue as a 3 on the scale presented earlier, saying that there was some willingness on their part to preserve their own culture. However, what comes to the eccentric people in the group, the real leaders or influencers in the organization, the degree at which they wanted to hold on to their own practices was "5 +".

For the implementation of the acquisition, the M&A process was followed and it was actually also developed quite a bit during this process. Because this was perceived to be a difficult case, an extra effort was made to manage the cultural differences. An external consultant was employed to allow people to talk freely about how they felt and how they were used to working and a lot of time was spent on determining what the problems were. The objectives of the acquisition were discussed with both parties separately to see whether they matched and group discussion sessions were arranged to talk the differences over and to "unload the frustration". Face-to-face meetings were also arranged so that people would simply get to know each other. The idea was for the two parties to begin developing products together "at the same table physically", so that communication (e.g. by phone or e-mail) would be easier once they returned to their own work places to continue the projects. The normal cross-cultural training sessions were also arranged.

A factor making the integration even more complex was the simultaneous acquisition of a unit in Finland, which was also meant to be integrated with the two parties presented above. The cultural differences between the acquiring unit and the Finnish unit were, however, much smaller than the differences between the two units located in the United States. This deal did nevertheless cause more frustration within the acquired unit in the US, as they had not anticipated this move.

The ultimate goal of the deal was to develop an enhanced product. According to the interviewee, Company A has never, or not recently anyway, engaged in an acquisition involving merely a product. In other words, the aim has always been to acquire the know-how of the people in the target company and whether this know-how is then utilized according to the original plan or in another useful way, the acquisition can still be considered a success.

Integration-wise, this acquisition process was challenging due to the strong and somewhat antagonistic personalities involved in the process. In fact, one of the lessons learned from the experience is the question of whether one should attempt to keep all the "good people", i.e. the competent people with a solid level of know-how, even if they do not desire to be integrated. Another lesson learned is not to underestimate the cultural differences even if one is acquiring a company next door, as the organizational culture is different in each case. Finally, making simultaneous or many consecutive acquisitions is challenging, because the acquiring organization's ability to tolerate change is limited.

4.2 Cross-Case Analysis

The aim of this section is to synthesize the observations concerning both the holistic and the embedded case studies in order to explore the theoretical framework. The table compiled to assist in the synthesis of the embedded cases (Table 10) is included in Appendix C: Synthesis of the Embedded Cases. The structure of this section will follow the structure of the framework. In other words, the M&A process will be studied first, followed by the levels of cultural differences and the theories by which they have been perceived to affect mergers and acquisitions. The cultural management will be examined next and attention will then be drawn to the question of post-merger organizational performance.

4.2.1 M&A Process

The reason the M&A process of the case companies was examined was to determine whether they followed the general process presented in the framework, which indeed they did. More interesting, however, was the following observation:

All 5 of the cases, at some point, reflected the fact that *experience* was perceived to be the single most important factor facilitating the management of cultural factors in mergers and acquisitions and thereby affecting post-merger performance. Documented process descriptions with general guidelines on handling mergers and acquisitions (including cultural issues), however, had only so far been utilized by Stora Enso and Company A. Outokumpu was in the process of adding one to its investment manual, while Datex-Ohmeda relied on the documented cases of earlier transactions as well as maintaining a pool of experience on the subject. Nordea relied primarily on earlier experience. Moreover, mergers and acquisitions were mainly a corporate level activity in Datex-Ohmeda (Instrumentarium) and Nordea, while in the remaining 3, it was mostly an activity undertaken by the business units of the company.

The use of documented cases of previous transactions can definitely assist in handling the cultural management of subsequent transactions, but a data source, such as a *documented process description*, which synthesizes the most important lessons learned from all previous transactions, may be an even more efficient way of utilizing the accumulated experience. The use of experienced people in new ventures can also help in the task, but in companies, where mergers and acquisitions are undertaken by small and sometimes geographically distant subunits, experienced people may only be available in the role of support, and not as the central decision-makers in the area. The subunits may therefore also in this perspective benefit from a set of general guidelines on how to proceed with the cultural management, even though every merger or acquisition is unique.

4.2.2 Factors Affecting the Level of Cultural Conflicts

<u>Levels of Cultural Differences</u>

The examination of the different levels of culture affecting mergers and acquisitions can be summarized in the following way: the levels brought up in the cases (either explicitly or implicitly) were national (by all 5), organizational (5), industry (3) and business (3). National cultural differences were thought of as obvious, and studies on the topic were perceived to be readily available from numerous sources (such as studies on national stereotypes). Examples of *national cultural differences* included differences in attitudes and values as well as local or traditional ways of doing things. *Organizational cultural differences*, which were seen as more complex, included differences in management styles, organizational structures, the companies' values, relationships in superior-subordinate teams and the way in which things get done in the companies. An example of organizational cultural differences listed in all 5 cases was differences in decision-making.

As to the embedded cases, national cultural differences were not observed to play a part in the two domestic cases, as could be expected, but they were perceived to affect all but one of the eight international cases, namely Company A's Embedded Case Y. The reason national cultural differences were not perceived to affect this international acquisition was the fact that the acquiring *unit* was actually located in the same country as, and only about 80 kilometers from, the acquired company, making the transaction local in nature. Organizational cultural differences, on the other hand, were identified in all of the 10 embedded cases.

Industry and business cultures were brought up in Datex-Ohmeda, Nordea and Company A. The extract on differing paradigms presented in the Datex-Ohmeda case on page 78 (the ant in a mug building an airplane, which turns out to be very different from the one built outside the mug) exemplifies how different the perspective on things can be between different industries. The fact that the cultural difference between the Datex and the Ohmeda party was "more considerable than the difference between Americans and Europeans" although the two operated in the same industry, would emphasize differences in business cultures over national cultures. Company A had also come across industry and business levels of cultural differences and acknowledged that they had an impact on mergers and acquisitions, e.g. either when diversifying into a different industry or moving from retail to infrastructure business. At Nordea, by contrast, these levels had not been perceived to have an important effect, but this could be attributed to the established and controlled nature of the banking trade.

Although differences in industry and business culture have not traditionally been discussed in the M&A literature, and were therefore initially excluded from this study (as was explained in the limitations of the study), the discussion above shows that they can play an important part in certain situations, such as the merger between Datex and Ohmeda. Stora Enso and Outokumpu may have encountered differences at these levels as well, but since these levels have not generally been as widely discussed as national and organizational cultures, the interviewees may simply not be familiar with the terms 'industry culture' or 'business culture', and did therefore not mention them. Industry culture was actually not mentioned as a factor in any of the embedded cases, but this could be because none of these cases were motivated by diversification into an entirely different industry, a situation where differences in industry culture would be highlighted. Even though such diversification nowadays occurs less often than before (as was explained in the introduction of the study), these transactions cannot be ruled out completely.

Another level of cultural differences, *individual cultural differences*, was mentioned in the Stora Enso case. However, by the definition of culture presented in the introduction of this study, culture is always considered to be a collective phenomenon. Differences at the individual level (or differences in e.g. personalities) are therefore not taken into consideration in this study, although they, as the interviewed manager pointed out, can significantly affect the outcomes of mergers and acquisitions, especially in the higher levels of the organization.

Moreover, an observation was made in the Stora Enso case on the cultural differences between people in different locations inside a nation. This observation clearly exemplifies the importance of *subcultures*. Finland is a relatively small country, and the fact that subcultures have been perceived to affect mergers and acquisitions here suggests that in larger countries (e.g. USA), where geographical distances are greater and subcultures between different areas are more distinct, subcultures can play an important role in the outcomes of mergers and acquisitions. This can be assumed to be especially so if it is taken for granted that the merging parties originating from different parts of the same country share the same culture, and the existing subcultures are overlooked. This assumption is based on the proposition of Larsson and Risberg (1998) and Vaara (1999) concerning supposedly close cultures in a cross-border context discussed in section 2.2.4. However, even though their importance in mergers and acquisitions has been acknowledged, subcultures are beyond the scope of this study (as explained in the limitations), and were therefore not examined further.

Comparisons between the Levels of Cultural Differences

National cultural differences were perceived to be the level of cultural differences which has the largest effect on international mergers and acquisitions by one of the Stora Enso respondents and Outokumpu, while organizational cultural differences were thought to play a more important role by the other Stora Enso respondent, Nordea and Company A. In Datex-Ohmeda, differences in business cultures were implicated as the most important level in this perspective, although the importance of national cultural differences was also acknowledged, as could be derived from the fact that learning to cope with the national culture in the Ohmeda acquisition (learning to "understand America") had been perceived to facilitate the integration of the later Space Labs acquisition.

The discussion above on the levels of cultural differences does not clearly support emphasizing any one level over another. The importance of each level varies depending on the case at hand, regardless of whether the transaction is domestic or international (although e.g. national differences can evidently not be assumed to play a major role in the former). The argument of Weber et al. (1996) that national cultural differences play a more important role than organizational ones in international mergers and acquisitions could therefore not be supported based on these cases.

Furthermore, as implied in all 5 of the cases, the different cultural levels are very difficult to separate from each other. For example, a cultural difference encountered and specifically brought up in 4 of the 5 case companies was the difference in decision-making habits between Finns and Swedes. Swedes were perceived to resort to lengthier discussions on the issues at hand, strive for consensus and thereby take more time in decision-making than their Finnish counterparts. According to the Engström case, this type of decision-making was not befitting to the more "painful decisions" needed concerning e.g. layoffs. The difference in decision-making is clearly a difference in the *national cultures* of the two countries and is in accordance with Hofstede's (1991) dimensions. For example, at Stora Enso, the discussion on the topic related to the dimension of uncertainty avoidance (the Swedes "had to be sure the decision is correct"), while at Outokumpu it reflected the dimension of individualism vs. collectivism (the Swedes had to discuss and make the decision together, in consensus). On the other hand, this national cultural element is obviously present in the *organizational cultures* of companies originating from these two countries, exemplifying the interconnectedness of the cultural levels.

Based on the preceding discussion, a more suitable way of presenting the levels of cultural differences in the framework would be to include the industry and business culture, and interconnect all the levels as illustrated in Figure 11. The figure is similar to the idea of depicting culture as an onion (as presented in the definitions, Olie 1994). But instead of depicting national culture as the center, it is portrayed as an outer level, as the foundation which encompasses all the other levels.

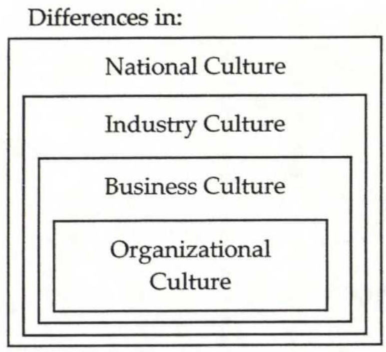

Figure 11: The Levels of Cultural Differences Affecting Mergers and Acquisitions

Merger Type

The merger type (introduced by Olie 1990) was identified and understood in all 5 cases to be a factor affecting the level of cultural conflicts, especially when comparing mergers between equals with clear-cut acquisitions. For example, Palin-Lehtinen from Nordea described the difference between acquisitions and mergers in the following way: "If Citybank were to acquire us, we would receive a manual. But here [referring to their expansion through mergers between equals] we have always created that manual, which naturally makes [the process] slower".

As explained in the introduction of Olie's (1990) merger types, these types present a rather crude classification and not all mergers can be categorized according to them. Some of the embedded cases included in this study were, indeed, somewhat difficult to fit into these categories, but Table 8, which is based on Olie's (1990) merger type classification (see pages 16-18), presents the types they closest conformed with. The categorization of the cases presented in parenthesis will be explained in the following passages.

None of the embedded cases were of merger type 1 (conglomerate mergers), in other words the only merger type predicting a low level of culture-related problems. This could be expected since, as mentioned earlier, the number of transactions motivated by diversification into an entirely unrelated industry has decreased considerably in the near past.

Table 8: Merger Types of the Embedded Cases

Merger Type	1. Conglomerate Mergers	2. Mergers/ Marriages	3. Absorptive Acquisitions	4. Redesign Mergers
Power Differential	Unrelated	Low	High	High
Integration Needs	Unrelated	High	High	Low
The role of culture-related problems	Minor	Significant	Moderate	Moderate
Embedded Cases		• Stora Enso • Merita • Merita-Nordbanken • (Datex-Ohmeda)	• Tampella Forest • Engström • Case Y • (Case X)2	• Consolidated Papers • (Case One) • (Case X)1

Note: Classification of cases in parenthesis was subject to further explanation

Embedded Case X could initially be classified as a redesign merger, referring to the early, limited integration required by the acquiring company, Company A. In the long run, however, the deal could be considered an absorptive acquisition, reflecting the future intension of Company A to assimilate the acquired company.

The initial deal behind Outokumpu's Case One was a merger/marriage, since the two parties were of approximately equal power (profitability vs. size) and the desire to obtain synergies was clear. The more recent transaction, Outokumpu's acquisition of the full ownership of the company, however, could be classified as a redesign merger. The corporation is obviously more powerful than the acquired company, which is now one of its business units, and although the acquired company will mostly be allowed to carry on as usual, some functions will be integrated. The redesign merger case was actually the one focused on in this study, although the initial merger was acknowledged to have had an impact on it.

The mergers between Stora and Enso, Datex and Ohmeda, SYP and KOP to form Merita, and Merita and Nordbanken could be classified as mergers/marriages. Although Ohmeda was clearly the acquired party in the Datex-Ohmeda case, the fact that it was merged with the Datex unit, which was only half its size, made the transaction a merger/marriage by nature. Despite the fact that genuine mergers among equals are seldom encountered, the principles applied in the integration of such mergers (e.g. best practices) seemed to be applied especially in the Stora Enso, Merita and Merita-Nordbanken cases, even if some power differential was evident. In the Datex-Ohmeda case, by contrast, the gut-feeling of the Datex party was that its culture would prevail, since it was the driver in the deal.

The merger type, based on the examination of the embedded cases, does not seem to be a very convincing factor in predicting the level of cultural conflicts. For instance, Company A's embedded Case Y turned out to be very challenging despite the fact that it was an absorptive acquisition. Meanwhile, the mergers between Stora and Enso, Datex and Ohmeda as well as Merita and Nordbanken were perceived to encounter a moderate level of difficulties despite the fact that they were rather complex mergers among equals. However, because the initial expectation usually seems to be that a merger is more difficult than an acquisition, the parties may be better prepared for the upcoming difficulties in mergers, and may therefore be able to subdue them through management efforts, resulting in a lower level of problems actually encountered. Although mergers between equals generally do create a more demanding situation, since a new, mutual culture needs to be created, one should not underestimate the challenges presented by acquisitions either.

Language Problems

Language problems were also identified in all 5 cases, although from a slightly different perspective in each. At Stora Enso, the language discussion pertained to the frustration stemming from the other party's inability to speak another's language correctly, in this case the Swedes referring to the use of Finlandssvensk. At Datex-Ohmeda, the differences in communication styles between Americans, Finns and Frenchmen were well portrayed (see page 78). These differences were in accordance with Hofstede's (1991) dimensions, especially the dimensions of femininity vs. masculinity (the American being more assertive than the Finn) and uncertainty avoidance (the Finn giving a more pessimistic view of things than the American) as well as Larsson and Risberg (1998), who claimed that different cultural encoding and decoding can lead to misunderstandings between persons of different nationalities. At Outokumpu, the language issue was related to the threshold of acquiring companies in countries, where English is not widely spoken and at Nordea, to the challenges presented by speaking other than one's own home language, which is again in accordance with Larsson and Risberg (1998). And finally, at Company A, the use of professional languages had been identified as an issue in mergers and acquisitions.

In the embedded cases, however, language problems were specifically mentioned as an issue in only two of the cases, despite the fact that 8 of them were international. Both of these cases (Stora Enso and Merita-Nordbanken) had to do with a Swedish partner. This may again be a reflection of the dilemma of cultural proximity (Larsson & Risberg 1998 and Vaara 1999), since Finns tend to be familiar with Swedish and may therefore not have anticipated language problems. Although English is the corporate language of both these companies, Swedish is often used as well. The fact that English is the corporate language in all the other case companies as well, may account for language issues not having been perceived to arise in the other international cases.

<u>The Model of Cultural Fit</u>

The essence of the model of cultural fit (Cartwright & Cooper 1996) in acquisitions was taken up in 2 of the cases. At Outokumpu, large corporations were perceived to "kill successful small companies" by acquiring them, since the obligation to operate according to the habits of the large corporation would hurt the entrepreneurial touch of the small firms. This is clearly in accordance with the assumption of Cartwright and Cooper (1996) that a decrease in the decision-making freedom in the acquired units will cause problems. Outokumpu's Case One (where the status of the acquired company changed from an independent company to being a unit of a corporation) and Company A's Case Y (where the ideas of individuals of the small acquired company were not implemented as quickly in the large company) also clearly demonstrated this occurrence.

On the other hand, Company A had perceived that if the acquired organization was used to functioning in a hierarchical and authoritarian way, adapting to a network organization with virtual teams could lead to a serious decrease in employee efficiency. In other words, an *increase* in an individual's freedom was perceived to cause problems. This would contradict Cartwright and Cooper's (1996) assumption that an increase in an individual's freedom is always a desired element and a change in the individuals' freedom in an acquired company does therefore not necessarily predict the level of cultural conflicts correctly, even though the embedded cases in this study did not represent such a situation.

The interviewees were asked to compare cross-border with domestic mergers for the purpose of examining the role of cultural fit in mergers, i.e. the need for an initial cultural fit between the merging parties. The discussion on this topic at Nordea was not related to the issue of cultural fit, but on the nature of domestic versus cross-border mergers (due to the banking industry, the former had consisted of restructuring cases entailing a lot of emotion and the latter involved growth and a more positive mindset).

Stora Enso, Outokumpu and Company A, however, manifested that engaging in mergers with parties from seemingly culturally close countries were, or had turned out to be, more problematic than with parties from more distant countries. For example, even though Outokumpu has operations in over 40 countries, the largest "culture shocks" involving national cultural differences had been perceived to originate from Sweden. The reason given for the occurrence by all three of the respondents was the fact that the similarities of closer parties were taken for granted and differences were not anticipated, which is strongly in accordance with the findings of Larsson and Risberg (1998) and Vaara (1999) on the dilemma of culturally close countries. Therefore, particularly in the context of international mergers, the idea of ensuring an initial cultural fit proposed by the model of cultural fit can be argued. However, the fundamental idea behind the model, i.e. the larger the cultural differences between the two parties, the more difficult the integration in the long run will be, complies with common sense (and was specifically noted in Company A). And vice versa, as could be deduced from the merger between Datex and Ohmeda, a relatively complicated merger can be facilitated by the fact that the merging partners share a common cultural element (in this case the customer oriented value base).

<u>'Us vs. Them' Antagonism</u>

The 'us vs. them' antagonism introduced by Sales and Mirvis (1984) and Olie (1994), which has been claimed to result in 1) highlighting of differences between the two merging parties, 2) seeing one's own party as purely good and the others as purely bad, and 3) refusing to see things from other than one's own viewpoint, was recognized in all 5 cases. For example, in the Stora Enso case, Tolvanen observed that relying on national stereotypes will result in the formation of competing national teams, or in other words will lead to or strengthen the antagonism. One of Nordea's embedded cases, the merger between SYP and KOP to form Merita, was an excellent example of an exceptionally strong 'us vs. them' antagonism, which stemmed from the long history of fierce competition and emotional commitment of both the employees and the customers to their own company. Table 9 presents a synthesis of the perceived level of antagonism in the embedded cases, as well as the main factors, which can be assumed to have been the main reason behind the level of antagonism in each case.

Although the level of antagonism is largely related to the perceived level of cultural differences, the two do not match entirely. In the Tampella Forest case, for example, the sensation of being forced into the deal can be assumed to have been a more important cause behind the antagonism than cultural differences. In the Consolidated Papers and Datex-Ohmeda cases, on the other hand, the enthusiasm and general positive mindset towards the acquisition can be assumed to have weakened the antagonism, although moderate organizational cultural differences were perceived to exist in both.

Table 9: Perceived Level of 'Us vs. Them' Antagonism in Embedded Cases

Perceived Level of 'Us vs. Them' Antagonism	Embedded Case	Explanatory Factors
LOW	Consolidated Papers	• Enthusiastic response towards the acquisition • Stora Enso not an American acquirer that may have required more radical restructuring
	Datex-Ohmeda	• Enthusiastic response towards the acquisition (excluding the top management of Ohmeda) • Shared value of customer-orientation
	Case X	• Very positive mindset towards the acquisition • Surprisingly similar organizational cultures
MODERATE	Stora Enso	• "Sweden vs. Finland National Contests" • A rather neutral mindset towards the merger
	Engström	• Relatively positive mindset, but large differences encountered in quality-cultures between Engström and Datex
	Case One	• Loss of status from a company listed on the stock-exchange to a business unit of a corporation
	Merita-Nordbanken	• Relatively positive mindset, but some "Swedes vs. Finns" national cultural differences encountered
HIGH	Tampella Forest	• Tampella Forest being forced into the deal due to its poor financial state
	Merita	• Long history of fierce competition • Emotional commitment to one's "own" company
	Case Y	• Initial unrealistic expectations of the acquired party turning into disappointments

Acculturation

The effect of the two acculturation theories presented in the framework, the preferred acculturation modes introduced by Nahavandi and Malekzadeh (1988) and the force-field analysis of acculturation of Elsass and Veiga (1994) (see pages 20-28), was not explicitly taken up with the interviewees. Both of these theories incorporate several factors, which affect the level of cultural conflicts simultaneously, making these theories more complex and more difficult to identify than the more general theories discussed above. The interviews concerning the embedded cases were therefore designed to allow for making some assessment concerning the relevance and applicability of these theories. Many of the factors behind the theories were, however, also brought up proactively by the interviewees, which would point to the fact that the theories are relevant in this context. The factors brought up by the interviewees included the attractiveness of the acquirer (Company A's Valintatalo vs. Stockmann example on page 93), the perception of cultural differences and the acquisition motive, which affects the merger type (particularly dwelled on in the embedded cases), as well as the structure of intergroup relations, which reflects the 'us vs. them' antagonism discussed above.

The analysis of the *preferred acculturation modes* (Nahavandi & Malekzadeh 1988) in the embedded cases (based on the dimensions of the attractiveness of the acquirer, the desire to preserve one's own culture, the relatedness of the firms and the degree of multiculturalism) revealed the fact that especially in the case of mergers, trying to assess the predicted level of conflicts through the application of this theory was, at times, quite ambiguous.

First of all, especially in the merger between Stora and Enso and Nordea's embedded case on the merger between SYP and KOP to form Merita, it was difficult to identify which party was actually 'the acquirer' (even though e.g. SYP was obviously financially better off than KOP). The acculturative model of Nahavandi and Malekzadeh (1988) might therefore be more suitable for acquisitions and mergers with clear power differentials than genuine mergers among equals.

And secondly, it was often difficult to determine what the preferred acculturation modes actually were, since the dimensions used would have indicated something in-between the different modes, further impeding the evaluation of the level of congruence. To sum up, however, clear congruence, and thereby a predicted low level of acculturative stress was thought to be found in 2 cases (Merita-Nordbanken and Company A's Case X), some congruence in 4 (i.e. moderate stress in Stora Enso, Consolidated Papers, Engström and Outokumpu's Case One), and incongruence in 4 (high stress in Tampella Forest, Merita, Datex-Ohmeda and Company A's Case Y). (See Appendix D: Preferred Modes of Acculturation for a table presenting the case-by-case analysis of the preferred acculturation modes based on the four dimensions listed above).

None of the embedded cases were perceived to explicitly point to deculturation, i.e. to both weak forces of cultural differentiation as well as weak forces of organizational integration, which would have predicted a low tension system in the *Force-Field Analysis of Acculturation* (Elsass & Veiga 1994). A moderate level of tension was predicted by 6 of the embedded cases, in other words cases purporting either strong forces of cultural differentiation and weak forces of organizational integration (separation) or vice versa (assimilation)), or a moderate level of either or both of the forces. A high level of tension could be predicted by 4 cases, where both of the forces were identified as being strong (i.e. Tampella Forest, Merita, Datex-Ohmeda and Case Y). (See Appendix E: Force-Field Analysis of Acculturation for a table on the force-field analysis concerning the embedded cases).

Although the two acculturation models are related since the latter is derived from the former, the level of tension predicted by each differed somewhat in the embedded cases. This is largely due to the fact that unlike the acculturative model of Nahavandi and Malekzadeh (1988), the force-field analysis did not yield a predicted low level in any of the cases. On the cases predicting a high level of tension (i.e. Tampella Forest, Datex-Ohmeda, Merita and Case Y), however, the two models were congruent. All in all, when comparing the two acculturation models, the force-field analysis seemed to be more pertinent based on the examination of the embedded cases in this study. This was so especially since unlike the acculturative model of Nahavandi and Malekzadeh (1988), in-between modes were an acceptable element in this model due to its dynamic nature. However, further and more elaborate studies concentrating specifically on these models would be needed in order to compare them and make conclusions on their validity.

Other Influencing Factors

Other issues that were presented by the interviewees as factors affecting mergers and acquisitions were for example the uncertainty of where and how promotions are made, which Ansaharju from Stora Enso listed as the "biggest single obstacle" in mergers and acquisitions. It has, indeed, been acknowledged as a major problem in mergers and acquisitions. According to Kay and Shelton (2000), for example, the employees' uncertainty of how they will fit into the new company's structure, what their pay will be or how their performance will be measured can all lead to an increased number of employees leaving the company. (Kay & Shelton 2000, 1). Although this issue can partly be attributed to differences in the organizational cultures of the merging companies, it mostly fits into the category of general change management (introduced in the limitations of this study) and has therefore not been dealt with in more detail in this study.

Palin-Lehtinen from Nordea pointed out that cultural conflicts can arise because the change process involved in all mergers is always difficult and contains a lot of emotion. This comment points to the natural resistance to change, and is therefore again an example of change management in general (see e.g. Dichter et al. 1993 and Arena 2002) rather than cultural issues per se. Palin-Lehtinen also mentioned the lack of knowledge as a factor, for example making decisions concerning the accounting practices of a corporation based in different countries without taking into account the accounting laws of all the countries involved. This issue can be related both to socio-environmental issues, as in the example above, or to more clear-cut cultural issues (e.g. not knowing the appropriate manners appreciated in different cultures, as explained by Palin-Lehtinen in Erkkilä 2001, 251). The comment in the cultural sense can be linked to Larsson and Risberg's (1998) proposal of increasing cultural awareness, in other words increasing knowledge on the other party's habits and ways of doing things in order to avoid mishaps.

And finally, Ritvos from Datex-Ohmeda stated that more important than the cultural background is the sociological profile (or the social behavior) and the personality of the individual, and that the same type of individual could be found regardless of the nationality. This may be so, but as this study concentrates on the cultural factors affecting mergers and acquisitions, individuals per se have not been dealt with in more detail here. According to the definition of culture applied in this study, culture is always considered a collective phenomenon. If excluding the top management of the merging companies, the number of people who are affected by a merger is often so large, that the management of such a collective phenomenon can be assumed to be more efficient than the management at a more individual level, such as the management of different personality types. These personality types should, of course, be taken into account wherever possible (e.g. in the acquisition of small units involving a small number of people, or in the choice of communication channels, since different types respond differently to different means of communication). And as mentioned earlier, one should not forget that a person is first and foremost an individual, and that e.g. national stereotypes should not be relied upon.

Evaluation of the Overall Validity of the Factors Affecting the Level of Cultural Conflicts

The embedded cases were examined further to be able to provide some indication on how well the factors affecting the level of cultural conflicts presented in the framework actually reflect the level of conflicts encountered in mergers and acquisitions. Each factor (such as the levels of cultural differences, the merger type, the 'us vs. them' antagonism etc.) was assessed to portray either a low, moderate or high level of cultural conflicts. The overall level of cultural conflicts predicted in each embedded case was derived from the mode of the values assigned to each factor, in other words the value that most of the separate factors would predict. This overall predicted level of cultural conflicts was then compared with the level of difficulties that had been perceived to take place in the cultural integration of the embedded cases. (See Table 10 in Appendix C: Synthesis of the Embedded Cases for a closer examination of the different variables).

Overall, the level of cultural conflicts predicted by the cultural factors included in the framework reflected the perceived level of difficulties encountered in the cultural integration of these cases quite consistently (the two variables matched in 8 of the 10 embedded cases). This would suggest that the cultural factors do reflect the level of cultural difficulties and that the theoretical framework does, therefore, make sense in this matter. However, the evaluation is based on the subjective accounts of the interviewees and it is therefore acknowledged that the framework could benefit from further studies confirming this finding.

The only cases where the two variables did not correspond were Tampella Forest (a high level of predicted cultural conflicts, but a low level of difficulties actually encountered in the cultural integration) and Consolidated Papers (a moderate level of predicted conflicts, but a low level of encountered difficulties). Although most of the factors in the Tampella Forest case would have indicated a high level of problems in integration, the high power differential between Enso and Tampella Forest can be assumed to have made the integration relatively uncomplicated. The culture of the acquiring party was imposed on the acquired without much discussion on the subject. Stora Enso's integration of Consolidated Papers case may, in turn, have been rendered less complicated than the cultural factors would have predicted simply because not much integration was needed, since the deal was a redesign merger.

4.2.3 Management of Cultural Factors

Figure 12 synthesizes the empirical findings concerning the management of cultural factors. The number of cases, where the management effort in question was mentioned is presented in parenthesis. The differences in relation to the original framework (Figure 9 on page 39) are marked in bold. The efforts pertaining to the different phases of the M&A process will be examined in the following passages.

Decision-Making Process

Only 2 of the cases, Stora Enso and Company A, revealed some cultural management in the early stages of the M&A process, i.e. the decision-making phase. However, due to the limited contacts with representatives from the other party, conducting an in-depth *culture audit* (as proposed by Cartwright and Cooper 1993) at this stage, i.e. before the announcement of the deal, was not perceived possible. The general studies conducted by Stora Enso and Company A are in accordance with Larsson and Risberg (1998), who recommend building cultural awareness. This *cross-cultural analysis* of the target companies may assist in either choosing the target company or companies with which to proceed to the next phase (as suggested by Company A), or in building a preliminary idea of the level of resources needed in the eventual integration efforts. Datex's acquisition of Engström was a good example of the difficulties that may arise from initially making an incorrect assessment of the organizational culture of the other party (in this case the assumption that Engström had a strong quality-culture, which turned out to be false).

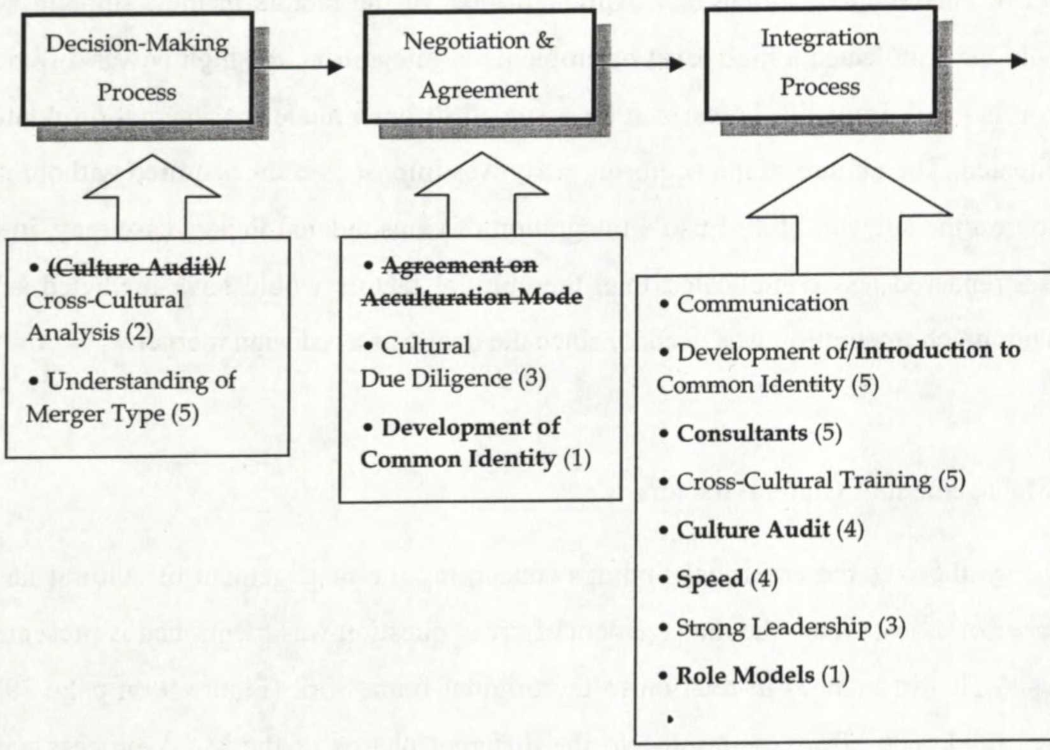

Figure 12: Synthesis of the Cultural Management Efforts

Note: The differences in relation to the original framework (Figure 9 on page 39) are marked in bold.

The effect of the *merger type* (Olie 1990), in other words the other issue linked to the decision-making phase in this framework, could be assumed to be quite well understood in all 5 cases based on the discussion on this issue in the context of the previous section on the factors affecting the level of cultural conflicts.

<u>Negotiation and Agreement</u>

The cultural management pertaining to the negotiation and agreement phase consisted of a due diligence process involving cultural questions (a *cultural due diligence* as proposed by Whalen 2002) in 3 cases; Stora Enso, Outokumpu and Company A.

In the Nordea case, the vision-building process together with the other party in the beginning of the negotiations of a merger is an example of the *development of a common identity* (as proposed by Olie 1990 to reduce the 'us vs. them antagonism'). The task of developing a common identity had been undertaken in all the other case companies as well, but only after the deal had been finalized, i.e. in the integration phase of the process. The dissimilarity in the timing of the task may come from the nature of the mergers in the banking trade. For example, in the merger between SYP and KOP, the situation in the industry was such that there really was no choice for the two but to merge, and therefore the common vision-building could already begin in the negotiations and was, without doubt, a powerful tool in the proceedings. In other cases, the common vision-building may not begin until after the agreement has been signed, although assessments on whether the separate visions of the two parties are similar enough to support the deal are, naturally, made before finalizing the deal. The manager from Datex-Ohmeda even pointed out that the discussion on common values can in practice usually only take place after the operational matters and the organizational structures have been attended to (Ritvos in Erkkilä 2001, 218-219).

The efforts at Nordea in developing a common identity in the negotiations could be assumed to include some discussion concerning the future acculturation of the two parties involved, but other than that, the *agreement on the acculturation mode* included in the original framework was not undertaken in any of the cases. This may partly be because, as explained by the interviewee at Company A, in the case of absorptive acquisitions, the mode of acculturation is self-evidently assimilation and does therefore not require an explicit agreement on the matter.

The management efforts undertaken in the embedded cases (as identified from the accounts of the interviewees) did not include any cultural management pertaining to the decision-making or negotiation & agreement phase of the M&A process (excluding the understanding of the merger type, which is not thought of as an effort, but an underlying element). This may not mean that none were performed, but since the interviews were designed so that the respondents were allowed to list the issues proactively, without being predisposed by the interviewer (although the question on this matter did specifically ask to list what was done in each phase of the process, see Appendix A: Interview Questionnaire), it may reveal the fact that the management of cultural issues is traditionally only thought to pertain to the integration phase.

Integration Process

The management efforts in integration included the following, listed in the order of most mentions: Development of, or introduction to, a common identity (5), consultants (5), cross-cultural training (5), culture audit (4), speed (4), strong leadership (3), and role models (1). Communication was taken up in all 5 of the cases, but it is not listed above, since its role was studied by using an explicit question on the subject (see Appendix A: Interview Questionnaire), automatically resulting in 5 mentions. The initial, and logical, assumption was that *communication* is exercised in all integration efforts at least to some extent, and as could be derived from all 5 cases, its crucial role was confirmed. The list of 10 management proposals for handling mergers given in the Stora Enso case (see page 61) was an especially explicit portrayal of the issue.

The *development of a common identity* (Olie 1990) in the integration phase was handled in many different ways in all 5 case companies, endorsing its importance in the integration efforts. The term 'development' of a common identity, however, rather pertains to mergers than acquisitions, because in the latter, the identity is not necessarily developed, but instead, the acquired party is 'introduced' to the corporate identity of the acquirer. In all of the embedded cases concerning clear-cut acquisitions (except the domestic Tampella Forest case, where not much cultural management whatsoever seemed to take place), for example, the cultural management included the communication of the mission, vision and values of the acquired company to the acquired party (e.g. the "welcome to the house" sessions at Company A). The 'introduction' to a common identity might therefore be a better term in the case of acquisitions.

The embedded cases concerning mergers, on the other hand, truly manifested the 'development' of a common identity. A good example of the development process is the mission, vision and value seminars involving 100 managers and the testing of the results in the different units of the company (see page 66) in the Stora Enso merger. As could be inferred from this process as well as e.g. the KIDE process (see page 74) utilized at Nordea, the development of the common identity not only involves researching and developing the identity, but also committing the new company to it ("walking the talk", as the process was called at Stora Enso – Ansaharju in Erkkilä 2001, 211).

The *employment of consultants* was also mentioned at some point in all 5 case companies. As was emphasized in the Datex-Ohmeda case, their role in the integration is especially important as a neutral party that can distance itself emotionally from the proceedings. *Cross-cultural training* had also been applied in all 5 case companies.

As explained earlier, conducting an actual *culture audit* was not perceived possible before the announcement of the deal. In the context of the integration phase, however, a culture audit (such as the Values and Attitudes surveys at Stora Enso, the analysis of the different parties' perception of differences in the Merita case and the "current state –analysis" at Company A) was mentioned in all case companies except Outokumpu. The task was usually undertaken as a first step in planning the later integration efforts, e.g. in assessing how a common identity should be developed or what type of cross-cultural training is needed (in all of the embedded cases, where a culture audit was conducted, the results of the audit had been utilized for this purpose). The culture audit as a part of the integration phase is actually partly in accordance with Cartwright and Cooper (1993), who emphasized the value of a culture audit in the pre-merger search process and partner selection, but also perceived it to produce important information for long-term management and did therefore not exclude conducting one after the closing of the deal.

The reason a culture audit was not mentioned as a task undertaken in Outokumpu's cultural management could be the following. As could be deduced from the case description, the type of mergers or acquisitions undertaken by Outokumpu has, in the last few years, changed to a large extent from Olie's (1990) conglomerate mergers (type 1) to mergers/marriages (type 2) and absorptive acquisitions (type 3), meaning that the role of culture-related problems can be assumed to now have become more significant (as proposed by Olie 1990). The company has therefore only recently begun confronting cultural issues in terms of integration management and may not as to yet have an established way of handling them (which is evident from e.g. the recent intention of adding an M&A process, including cultural considerations, to the investment manual).

Speed, or the swift, decisive and efficient manner of proceeding in the integration in order to make the integration as painless as possible, was identified as an important element in the integration management in 4 of the cases (again with the exception of Outokumpu). The need for speed was well illustrated by Company A's "burning platform". According to the interviewee, such a platform should be created to build motivation for the change process and effectively utilize the initial enthusiasm often experienced at the onset of an acquisition. The frustration which ensued due to the delay in the Stora Enso merger caused by the EU regulations supports this suggestion.

And finally, the importance of *strong leadership* was emphasized in Stora Enso (the role of the CEO and the need for clear governance), Datex-Ohmeda (the role and the personality of the integration leader) and Nordea (the behavior of and example set by the managers in charge). The "buddy-system" used at Company A, or the fact that "old" employees are transferred to the acquired companies, is in accordance with Olie's (1994, 387) "creation of overlapping memberships" aimed at reducing the 'us' versus 'them' thinking, but it also reflects the ideas presented by Feldman and Spratt (1999) of using *role models* to facilitate integration. The use of role models could actually be incorporated in the element of strong leadership, as leaders can be found in all organizational levels, i.e. the term does not exclusively refer to managers.

4.2.4 Effect of Cultural Management on Post-Merger Organizational Performance

In all 5 cases, the management of cultural factors in mergers and acquisitions had been perceived to positively affect the post-merger organizational performance. In Stora Enso, Nordea and Company A, different *measurements* had been used to assess the performance of cultural management. These measurements included HR-figures, such as the post-merger retention of personnel and the time elapsed in integrating different functions, comparisons to business cases and the results of different employee surveys, such as the self-assessments at Stora Enso and the employee satisfaction index at Nordea. The assessment method shared by all 3 of these case companies was the use of repetitive surveys, in other words assessing the values and attitudes of the acquired unit at the onset of the deal and repeating that survey later (typically after six months to a year and a half) to see how things had progressed.

The reason to study whether any measurements for assessing the effect of cultural management were used was to be able to profess that the management of cultural factors had really proven to be worthwhile, and not just been perceived to be so. Based on this study, this really was so, which would thereby justify the use of resources in managing cultural issues. However, as was for example pointed out by Ansaharju from Stora Enso, appointing a financial figure to assess the effects of cultural management would be too arbitrary to be of any use, since there are too many variables, which can ultimately affect the financial performance.

The specific goals of the embedded cases and measurements for assessing whether those goals were met could not be studied for reasons of non-disclosure. Furthermore, since the extent and quality of the separate management efforts undertaken in each embedded case were not studied (such research would have been beyond the scope of this study), it is difficult to accurately assess how well the factors predicting cultural difficulties were balanced by management activities to affect the overall performance of the deals. Based on the analysis of the embedded cases, however, the *cultural management* in the Stora Enso and Datex-Ohmeda mergers, Nordea's Merita merger as well as Company A's Case X could be assessed to have been especially thorough and effective.

The three former were all large and complicated mergers involving complete integration, which could explain the notable allocation of resources to the cultural management in these cases. The Merita case, i.e. the merger between SYP and KOP, was a particularly valuable example of how resolute cultural management can turn a very challenging integration process into a success. The cultural factors in Case X, on the other hand, could also be perceived to have been handled effectively (in proportion to the efforts needed) despite the fact that the transaction was a relatively small acquisition. This could be a reflection of the fact that Company A employs a specialized M&A team, which actively seeks to develop its know-how in the area of mergers and acquisitions, and is therefore well aware of the importance of cultural management and familiar with the available management tools.

Neither the level of cultural conflicts predicted by the cultural factors in each of the embedded cases, nor the level of difficulties encountered in the cultural integration in these cases correlated with the *financial* or the *overall outcome* of the deals (see Table 10 in Appendix C: Synthesis of the Embedded Cases). In other words, the cultural factors in the embedded cases did not predict what the outcome of these deals would be. This could be expected, and merely confirms the fact that cultural issues are just one set of factors affecting the outcome of mergers and acquisitions, and e.g. economic situations (as mentioned in most of the embedded cases) can ultimately make or break the deal. However, as has been clearly indicated by both the holistic and the embedded cases, a sound cultural management will help in overcoming difficulties, and will thereby contribute to making deals successful.

What comes to the success of *domestic vs. international* mergers and acquisitions, the embedded cases did not confirm that domestic ones are less complicated or more successful than international ones. For instance, Nordea's Merita case was very difficult even though it was domestic (although the difficulties could largely be attributed to industry-specific reasons, i.e. the restructuring of the banking industry). The fact that Enso's integration of Tampella Forest turned out to be rather straight-forward despite the potential cultural conflicts, could in part be attributed to the fact that it was a domestic case, since the power differential between the parties could be used to impose the culture of the acquirer without hesitation. If national cultural differences had been at play, such a clear-cut assimilation may not have been possible. However, further studies comparing domestic and international mergers and acquisitions would be required for more reliable conclusions on the matter.

As mentioned in the beginning of the cross-case analysis, *experience* was perceived in all 5 cases to be the most important element assisting in handling subsequent mergers or acquisitions. For example, the successful merger between SYP and KOP was professed to have facilitated the cultural management of the subsequent Merita-Nordbanken merger (e.g. the KIDE process developed in the former merger could be utilized in the latter). Thereby linking the organizational performance back to the management side of the framework figure to reflect the accumulated experience through a learning experience can be justified.

The fact that the management of mergers and acquisitions had been perceived to succeed better over time in all 5 cases, would suggest that the post-merger performance has also affected the upper side of the framework. In other words, it can be assumed that through experience, the company has become more effective in its implementation processes, thereby strengthening the forces of cultural integration, and more tolerant of differences, thereby weakening the forces of cultural differentiation and the level of possible antagonism. This was for example the case in the merger between Datex and Ohmeda, where Datex learned to cope with the American culture, which, in turn, was perceived to make the later acquisition of another American company, Space Labs, that much easier. The link from the post-merger organizational performance to these issues in the upper part of the framework can therefore also be justified.

When asked about the effect of cultural management on the post-merger organizational performance, Tolvanen from Stora Enso also acknowledged the importance of taking cultural issues into account, but maintained that cultural issues do not affect all levels of the organization. He explained with the following account (presented earlier, but repeated here for the purposes of the ensuing analysis):

> I visited a steel factory in Tornio today, and I still envision this guy there, wearing a blue overall and an old felt hat on his head, with a cigarette in one side of his mouth and driving a bicycle at a ¼ speed forward…It really just came to my mind that on the factory floor level, nothing whatsoever changes. … The overalls of the different firms [are still there], in Stora Enso some still wear Ahlström overalls, some Tampella Forest overalls, some Gutzeit overalls.
>
> The same employee will have the cigarette in the same side of his mouth driving the bicycle at the same speed – not much will happen to that, even if the signs of the firm are changed to whatever.

The extract illustrates how different organizational levels can face different levels of acculturation, an occurrence possible when complete organizational integration is not required. Moreover, the account provides grounds for speculation on how successful the management of the merger or acquisition in question has been. The development of a common identity even in the parts of the organization where organizational integration is not required can be assumed to build commitment to the firm and enhance work motivation. Olie (1994) argued that the identification with a new organization often takes place through common experiences, and the management should therefore remove symbols of previous identities (in this case old overalls) and replace them by new identification symbols. In other words, the individual habits of the employees (including how they like to drive their bicycles) would not have to change in cases where integration is not required, but it would be beneficial for the firm to have employees share a sense of commitment to the company.

4.3 Revised Framework

The findings from the cross-case analysis were used to revise the original framework (Figure 9 on page 39). The revised framework, presented in Figure 13 on page 127, will be discussed next, starting from the factors affecting the level of cultural conflicts (upper part of Figure 13), followed by the management side of the figure (lower part of Figure 13). The section will finish off by discussing the links to and from the organizational performance. The aim is to briefly go over and recap the different factors presented in the framework to explain why they were included, as well as why some of the factors presented in the original framework were excluded. The differences in relation to the original framework are marked in bold.

The levels of cultural difference affecting mergers and acquisitions, and thereby their outcomes, are *national*, *industry*, *business*, and *organizational culture*. The different cultural levels are interconnected as illustrated in the framework, i.e. the national culture is manifested in all the other cultural levels, elements of the industry culture in the business and organizational culture and so forth. The level with the largest impact on the merger or acquisition depends on the case at hand, and every level may not come to play in every case despite the interconnectedness of the levels (e.g. national cultures in clear-cut domestic transactions).

Although acquisitions can be very challenging, mergers, and especially those between parties of relatively equal power, can be considered even more demanding. The *merger type* is therefore a relevant factor in the outcome of mergers and acquisitions. *Language problems*, which entail a wide array of issues ranging from problems caused by different cultural encoding and decoding to the use of professional languages, also add to the challenges.

The *model of cultural fit* (Cartwright & Cooper 1996) was excluded from the framework for two reasons: First of all, in the context of acquisitions, an increase in an individual's freedom is not always a desired element, and the model may therefore predict ensuing troubles incorrectly. And secondly, the idea of ensuring an initial cultural fit, as proposed by the model concerning mergers, can be argued especially in the international context. However, the central idea of the model, i.e. the effect of the cultural distance between the parties on the outcome of mergers and acquisitions, is included in the framework in the form of the degree of cultural differences depicted in the different cultural levels on the top of Figure 13.

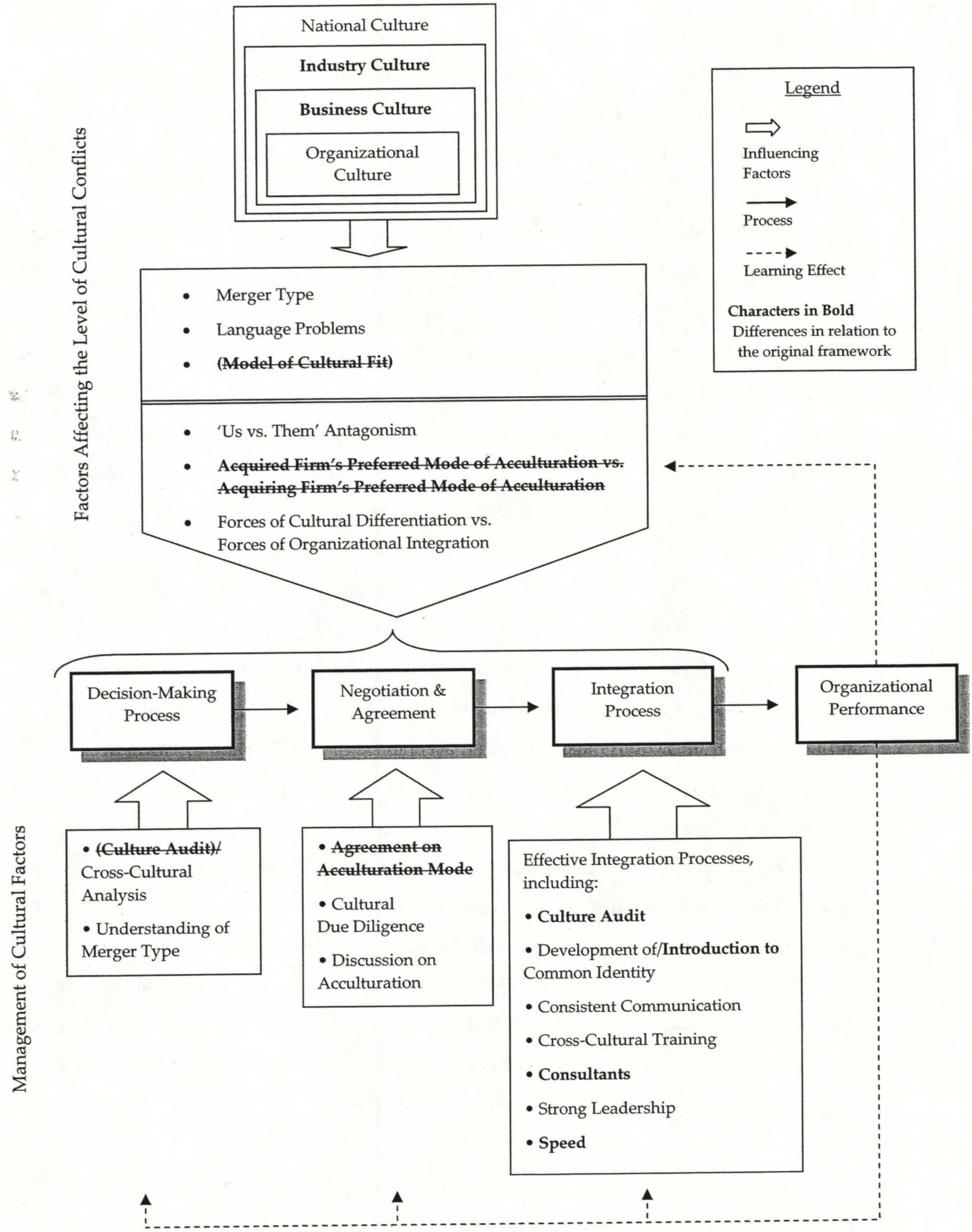

Figure 13: Cultural Determinants of Performance in Mergers and Acquisitions (Revised Framework)

The *'us vs. them' antagonism* is a natural reaction when groups of people from different cultural backgrounds come in contact with each other. Although it is incorporated in the acculturation theory discussed next, its underlying nature and importance in mergers and acquisitions is highlighted by listing it separately in the framework.

The acculturative model of Nahavandi and Malekzadeh (1988) was excluded from the framework based on the ambiguity related to using the model (difficulties in determining the *preferred modes of acculturation of the acquired and the acquirer*, and the consequent congruence thereof in the embedded cases). The fact that the same variables are taken into consideration in the model of acculturative dynamics, which has been derived from the acculturative model, would also speak for excluding one of these models. However, it is acknowledged that the framework could benefit from further, and more elaborate, studies comparing the validity of the two acculturation models.

According to the Force-Field Analysis of Acculturation (Elsass & Veiga 1994), the *forces of cultural differentiation* (or the desire of the groups to maintain their separate cultural identity) depend on the structure of intergroup relations and the perception of differences. In other words, all the factors that can affect the relations between the merging parties (such as the attractiveness of the acquirer and the overall acceptance of the deal) and the level of perceived differences (e.g. the attitude towards the other party's culture) will determine the strength of the forces of cultural differentiation. The *forces of organizational integration* (or the organizational need for cultural groups to work together), on the other hand, depend on the acquisition motive (the diversification strategy and the relatedness of the firms) and the implementation processes (e.g. how well communication is handled and how effective the transition processes are). The equilibrium between these two opposing forces gives an indication of the acculturation mode of the deal as well as predicts the degree of acculturative tension (low level of tension between weak forces and high level between strong forces).

The balancing side of the framework (lower part of Figure 13), i.e. the cultural management, lists the proposed measures to overcome the challenges presented by the cultural differences. The decision-making process, e.g. the screening for potential acquisition targets, should already include some *cross-cultural analysis* in order to assist in the partner choice as well as in obtaining an idea on the resources needed in the future integration. However, an actual culture audit can seldom be conducted at this stage of the process. The *merger type* and the level of difficulties indicated by the type in question should also be acknowledged from the start, again to assist in planning the future integration.

The due diligence process in the negotiation & agreement phase should include cultural questions to determine what the potential problems will be in integrating the two parties. In some cases, the *cultural due diligence* may even reveal such a serious problem in this area, that the deal may need to be abandoned or another type of partnership considered. Although an actual *agreement on the acculturation mode* may not be necessary, including even a brief *discussion on acculturation* in the negotiation process is proposed in order to show the negotiators' intercultural awareness and to attain a mutual understanding in the cultural issues.

The integration efforts specifically highlighted in the framework consist of the following: a *culture audit* to allow for planning the succeeding integration efforts (thereby depicted as the first task in the figure), the *development of, or introduction to, a common identity* through e.g. mutual values and symbols (development referring to mergers, where a new identity is created and introduction to clear-cut acquisitions), *consistent communication* throughout the ordeal to keep everyone informed, *cross-cultural training* where needed and the employment of *consultants*, who possess the expertise needed and who can also emotionally distance themselves from the process. *Strong leadership* is required both in managing the process but also in setting an example. And finally, the process should be handled as *speedily* and swiftly as possible to avoid excessive feelings of uncertainty and frustration.

As could be deduced from the study, cultural issues can have a large impact on the post-merger organizational performance. The study demonstrated that they may not be the single most important factor in determining whether the deal is a success or failure, and a sound cultural management may not save a deal that is fundamentally unsound, but cultural difficulties can spoil a promising deal if not managed effectively. The post-merger organizational performance will, in turn, influence the attitude towards subsequent mergers or acquisitions, and thereby affect the feelings of antagonism in terms of 'us vs. them' as well as both the forces of cultural differentiation (the better the performance, the weaker these restraining forces will become) and organizational integration (the better the performance, the stronger these driving forces will become). The organizational performance will also have an effect on the management of subsequent mergers or acquisitions through the experience gained and lessons learned (the learning effect depicted by dashed arrows in Figure 13).

5 Conclusions

5.1 Summary

The aim of the first section of the study was to give the reader an overview of the literature on the cultural factors affecting the outcomes of mergers and acquisitions. The literature review first presented the types of cultural differences that had been identified to play a role in mergers and acquisitions, emphasizing Hofstede's (1991) dimensions of national culture and Cartwright and Cooper's (1996) culture typology in illustrating organizational cultural differences.

The second part of the review comprised of the main theories and models explaining how cultural differences affect the outcomes of mergers and acquisitions. The main theories discussed were the merger type and the 'us vs. them' antagonism presented by Olie (1990 and 1994 correspondingly), Cartwright and Cooper's (1996) model of cultural fit, Nahavandi and Malekzadeh's (1988) acculturation theories as well as Elsass and Veiga's (1994) force-field perspective of acculturation. The distinctions between the impact of cultural differences on international versus domestic mergers were also discussed, mainly following the findings of Larsson and Risberg (1998), Weber et al. (1996) and Morosini et al. (1998). This discussion rendered the relevance of Cartwright and Cooper's (1996) model of cultural fit specifically in international mergers and acquisitions questionable.

The last part of the review gave an overview of the managerial implications of the main theories presented previously as well as recommendations from recent articles on how to successfully manage cultural differences in mergers and acquisitions. A theoretical framework was constructed to synthesize the findings of the literature review.

The aim of the empirical part was to examine the relevance of the theoretical framework in a real-life setting by linking it to the context of Finnish firms. The methodological approach applied resembled the constructive approach introduced by Kasanen et al. (1993), the main distinction being the use of the term 'solution' in this study and the one referred to in the constructive approach, which was originally developed in the context of management accounting. The research method used was the multiple-case study, largely based on the propositions of Yin (1994). The case companies examined were Stora Enso, Datex-Ohmeda, Outokumpu, Nordea and Company A. Each of the cases included one or several embedded cases, i.e. the examination of specific mergers and/or acquisitions undertaken by that company.

The cases were first analyzed individually and the analyses were then synthesized by the means of a cross-case analysis. The cross-case analysis included the construction of a table synthesizing the findings of the embedded cases, which was used in further examining the framework. The original framework was then revised according to the findings. The main conclusions drawn from the empirical study, or the main differences between the original and the revised framework, were the following:

1. Contrary to the argument presented in the limitations of this study, industry and business cultures were perceived to be relevant in the context of mergers and acquisitions. Moreover, the interconnected nature of the different cultural levels as well as the fact that, generally speaking, one level cannot be emphasized over another, became evident.
2. The model of cultural fit (Cartwright & Cooper 1996) was rendered questionable. The evidence indicated that, in the case of acquisitions, the increase in an individual's freedom was not always perceived to be a desired element, and in the case of mergers, seeking an initial cultural fit between the two parties was not considered pertinent. However, the central assumption that the larger the cultural distance between the merging parties, the more difficult the integration will turn out to be, was confirmed.
3. The acculturative model (Nahavandi & Malekzadeh 1988) was perceived to be quite difficult to apply especially in the context of mergers, since the model requires that one of the parties is seen as the acquirer and the other as the acquired. In genuine mergers among equals (which for example the Stora Enso and Merita mergers could be concluded to be), this cannot always be done. Furthermore, it was difficult to determine

the preferred modes in cases, where the analysis would have indicated something in-between the values of the dimensions used in the model. The model of acculturative dynamics (Elsass & Veiga 1994), on the other hand, was perceived to be more receptive to these in-between modes largely due to the dynamic nature of this model, and would thereby seem to be the more pertinent of the two acculturation theories. However, further, and more elaborate, studies comparing the validity of the two acculturation models would be needed to confirm this finding.

4. In the management side, it was concluded that an actual culture audit cannot be conducted in the early stages of the merger or acquisition, since the contacts with the other party at this stage are limited. The proposition made by the authors of the model of cultural fit (Cartwright & Cooper 1996) of conducting a culture audit in the search and screening phase of the process in order to ensure an initial cultural fit could be argued because of this limitation, as well as the fact that the need for such a fit was rendered questionable. The importance of conducting a culture audit in the integration phase for the purposes of planning the subsequent integration efforts, however, was highlighted by the cases (and is partly in accordance with Cartwright & Cooper 1996, who emphasized the need for a cultural fit, but also acknowledged the value of the culture audit in later stages of the process).
5. An agreement on the acculturation mode between the acquirer and acquired proposed by Nahavandi and Malekzadeh (1988) relating to the acculturative model was not perceived to be essential (e.g. the mode in acquisitions is often self-evidently assimilation).
6. In addition to the culture audit, the integration efforts which were not included in the original framework, but were clearly highlighted in the cases, were the employment of consultants and speed. The development of a common identity was not perceived to apply to clear-cut acquisitions, and thereby the term 'introduction to' a common identity was added to emphasize acquisitions, where the acquired party is assimilated and the corporate identity of the acquirer is imposed on the acquired party, and therefore not necessarily developed in any way.
7. And finally, although the study confirmed the fact that cultural issues are just one set of factors affecting the outcome of mergers and acquisitions, and e.g. economic situations can ultimately make or break the deal, both the holistic and the embedded cases clearly indicated that a sound cultural management will help in overcoming difficulties, and will thereby contribute to making deals successful.

5.2 Managerial Implications

The fact that mergers and acquisitions are nowadays increasingly motivated by the pursuit of synergies rather than diversification into entirely different industries has resulted in increased efforts to integrate the acquired companies. The need for a closer integration, in turn, has highlighted the importance of cultural management in mergers and acquisitions.

The essence of this study was to provide an overview of the cultural factors affecting mergers and acquisitions and to present propositions for managing these factors in order to increase the reader's awareness and knowledge on these issues. In other words, the aim was to find a solution to the managerial problem presented in the beginning of the study. Therefore, the work as a whole can be considered to be a managerial implication. However, a couple of issues were specifically deemed to be in need of highlighting:

1) First of all, the fact that experience is the number one factor facilitating the cultural management of mergers and acquisitions was clearly manifested by the empirical study. The experience accumulated from earlier mergers and acquisitions should therefore be made available and utilized in subsequent transactions. In other words, companies should have some tool for storing the most important lessons learned in each transaction and presenting them in a concise manner. Documenting separate cases and maintaining a group of people with merger-specific knowledge may not suffice, and therefore a document (such as a documented process description), which efficiently synthesizes the lessons learned in previous transactions and which is available to all those about to engage in mergers and acquisitions, may be more useful.

2) Secondly, a note was made on the fact that the cultural management of mergers and acquisitions is traditionally thought to pertain to the integration phase of the M&A process. Although the cultural change process normally starts in this phase, incorporating cultural considerations into the earlier phases may be in place. For example, some cross-cultural analysis could be conducted, although at a very general level, already in the screening & selection of potential partners to assist in the partner choice as well as give an indication of the resources needed in the eventual integration.

3) And finally, the negotiation & agreement phase should include a cultural due diligence to probe for potential cultural problems and to help in building an idea of the scope of cultural integration efforts needed. The negotiations could also include discussions on cultural issues outside the cultural due diligence, such as a discussion on the upcoming acculturation. This could be considered especially important in mergers between parties of relatively equal power, but also in absorptive acquisitions where the mode of assimilation seems self-evident. The discussion might result in agreements on the acculturation and prevent later misconceptions on the matter, but it would, at the least, demonstrate the cross-cultural awareness of the acquirer to the acquired party.

5.3 Future Research

The aim of this study was to explore the issues at hand, which meant that the research could not go very deep into specific details. Many suggestions for future research could therefore be derived from this study, since all of the different factors discussed here could be the object of further, and more elaborate, examination. Besides, all of the industries included in this study were found interesting enough to be specifically focused on in subsequent studies. However, the areas of future research suggested here have been chosen based on two criteria: first of all, they need to reflect the major research gaps identified from this work (either the empirical study or the literature review) and secondly, they have to be realizable in the context of a doctorate thesis seminar.

1) One of the issues specifically recognized in the empirical study to be in need of further corroboration was the comparison of the relevance of Nahavandi and Malekzadeh's (1988) acculturative model and Elsass and Veiga's (1994) model of acculturative dynamics. In this study, the latter was perceived to be more applicable, but more confirmation on the subject could be in order. The framework could also benefit from further studies on the effect of the management efforts used to counterbalance the cultural differences. However, such a study would require obtaining such a deep understanding of the efforts used that it may be difficult to realize even in the context of a doctorate thesis.

2) Subcultures, such as the cultures of different divisions inside an organization or cultures of people coming from different parts of one nation, were not studied in this study, as explained

in the limitations. Although the authors of the theories presented in this study acknowledge that organizations often comprise of many subcultures, these have not been explicitly dealt with in other studies concerning mergers and acquisitions either. Yet, as was professed by the Stora Enso case, subcultures can be presumed to significantly influence the process of cultural integration and thereby affect the outcome of the merger or acquisition. One future area of research could therefore be on subcultures in general and the effect they have on the outcome of mergers and acquisitions. Moreover, in spite of being listed in the limitations, industry and business cultures were convincingly found to play a part in international mergers and acquisitions, and were thereby included in the framework. However, further studies focusing explicitly on these cultural levels could be in order to verify their importance.

3) It is a central assumption in most studies on cultural aspects of mergers and acquisitions that culture is an important factor in their success or failure. And although, as explained in the research problem of this study, there is a lot of evidence that culture does, indeed, play a major role in the outcome of mergers and acquisitions, a number of other factors affect the outcome as well. No studies, however, seem to have been carried out to find out what even the approximate ratio of the cultural determinants to other determinants of performance is, or in other words how important the cultural factors really are compared to the other factors. This would require different kinds of studies (e.g. quantitative surveys) on both successful as well as failed mergers and acquisitions. The difficulty would probably be in finding access to reliable information on failed mergers, as companies tend to prefer presenting their successes rather than failures. Another issue, which would make this study difficult, is the multitude of factors determining the success or failure of a merger or acquisition (which also became evident in the empirical study).

4) As was mentioned in the section on domestic versus international mergers, empirical studies on cross-border mergers and acquisitions are still relatively rare despite the fact that they have become the dominant mode of internationalization (e.g. Olie 1994, Weber et al. 1996, and Cartwright 1998). Suggestions on future research therefore include empirical studies that would continue and confirm the findings of Larsson and Risberg's (1998) work regarding the role of cultural awareness as well as Weber et al.'s (1996) work on national and corporate cultural fit. Although Hofstede's cultural dimensions are probably known to all, and approved by many, researchers in the field, no studies have been performed with the mind of

explicitly linking his work to international mergers and acquisitions. There are numerous possibilities of doing so. For example, Larsson and Risberg (1998, 52) suggest a study of the various degrees and types of national culture clashes based on Hofstede's work.

An important observation regarding future research is provided by Cartwright (1998, 13), who notes that the cultural background of the researchers on cultural issues can affect the study results. Researchers should therefore be aware of their own cultural assumptions and try to select culturally appropriate and unbiased methods of research. The utilization of multi-disciplinary and multicultural teams of researchers could be a good way to overcome this dilemma.

Although the number of international acquisitions has decreased somewhat during the past few years, the level of financial investments involved has not. Research providing information for understanding and managing the cultural determinants of performance in these ventures therefore remains extremely important.

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APPENDIX A: Interview Questionnaire

Background

1.Name
2.Title
3.Position in organization
4.Length of employment
5.Experience in mergers and acquisitions

Mergers and Acquisitions

1.Development in M&A activity (90's – today)
2.Approx. number of deals in last few years
3.Approx. ratio of cross-border M&A to domestic M&A
4.How important part is M&A of company's business strategy

M&A Process

1.Is there a specific process, if so, what does it include
2.Which department handles which phase

Cultural Differences

1.How important is the effect of cultural differences perceived to be on M&A performance
2.Have perceived cultural differences ever been the reason to abandon a deal
3.What levels of cultural differences have been identified to exist
4.What level of culture has been perceived to effect M&A the most and why

Cultural Conflicts

1.Has there been any contemplation in the company on what actually causes cultural conflicts, if yes, please list possible reasons for cultural conflicts

Management of Cultural Factors

1.How are cultural differences managed (if an M&A process exists, what are the methods used in each phase discussed earlier)
2.Which department handles the management of cultural issues
3.How is communication handled in M&A

Effect of Management of cultural differences on Performance

1.What types of goals are set to evaluate success in M&A
2.Has the management of cultural factors been perceived to improve performance over time
3.Has it been proven to improve performance over time/is it really worth it
4.Have cross-border mergers succeeded better or worse than domestic mergers and why

CASE EXAMPLE 1-3

Background

1.What and when was the deal
2.What was the purpose of the deal
3.What was the merger type
4.Degree of relatedness of the companies
5.How keen was your firm on imposing its own culture in this case (on a scale from 1, not at all, to 5, very much.)
6.How important was it for the companies to work together (in terms of organizational integration)

The Other Party

1.What were the anticipated cultural differences
2.Were their employees more/less/equally free to make decisions
3.What was the financial state of the acquired company compared to yours
4.What was their mindset on the acquisition (e.g. enthusiastic/hostile)
5.How attracted were they of the acquirer
6.How keen were they on preserving their own culture (on a scale of 1, not at all, to 5, very much.

Implementation

1.Was a process followed
2.What was done (in each phase) to manage cultural differences and by whom

Performance

1.What were the goals of the deal
2.Were they met
4.Could the deal be considered a success

APPENDIX B: Interviewees

Company	Name	Title	Length of Employment in Case Company	Experience in M&A (approx.)
Stora Enso	Aulis Ansaharju	SVP Fine Papers, Stora Enso North America	28 years	6 years
Stora Enso	Jukka Tolvanen	VP Financial Consolidation	13 years	10 years
Nordea	Eira Palin-Lehtinen	Executive Vice President, Head of Nordic Private Banking	17 years (in banking)	13 years
Datex-Ohmeda	Antti Ritvos	President, Patient Monitoring	16 years	9 years
Instrumentarium	Hannu Ahjopalo	Executive Director, Corporate Development & New Strategic Ventures	25 years	15 years
Outokumpu	Kari Lassila	SVP Corporate Development & Investor Relations	34 years	20 years
"Company A"	"Interviewee"	Manager, M&A Transitions	15 years	>3 years

APPENDIX C: Synthesis of the Embedded Cases

Table 10, which synthesizes the embedded cases, was compiled for the purpose of a closer examination of the theoretical framework. The cultural factors, which had been perceived by the interviewees to affect the merger or acquisition (the upper part of the table), were assigned values to according to the level of cultural conflicts perceived to predict by each. A low level was indicated by the letter L, a moderate by M and a high by H. The only exceptions were the variables, which were not perceived to have an effect on the issue (left empty) and the language variable, which was considered an on/off issue: (empty) if no effect, (Y) if perceived to have an effect. The purpose of assigning values was to ensure a closer analysis of the cases in relation to the theoretical framework. The mode of the values assigned to the different factors (or the most frequent value) was used as the value indicating the overall predicted level of cultural conflicts in each case. The lower part of the table consists of the management efforts undertaken in each case (as identified from the accounts of the interviewees), which were depicted with an x. The perceived level of difficulties in integration, as well as the financial and overall success of the merger or acquisition, were also assessed and presented.

The table should not be relied upon to provide highly reliable conclusions as it is not based on an exact science. The assigned values are arbitrary in the sense that they are not comparable between the different variables in the table. Furthermore, the values are extremely subjective, as they are based on the subjective accounts of the interviewees. The aim, however, was not to e.g. make comparisons between the values of each variable, but to provide a synthesis of the embedded cases in order to be able to draw conclusions from these cases for the cross-case analysis, to take a closer look at the theories included in the theoretical framework, and to provide some indication on the overall validity of the framework.

The upper part of the table, or the variables reflecting the cultural factors which were perceived to affect the cases, will shortly be explained first, followed by the synthesis of the cultural management efforts undertaken in each case (i.e. the lower part of the table). The section will finish off by explaining the variables concerning the perceived level of difficulties in cultural integration, and the financial and overall outcome of the deals.

Table 10: Synthesis of the Embedded Cases

	Stora Enso			Nordea		Datex-Ohmeda		Outo-kumpu	Company A	
	Tampella Forest	Stora Enso	Consolidated Papers	Merita	Merita-Nordbanken	Engström	Datex-Ohmeda	Case One	Case X	Case Y
National Culture		M	M		M	M	M	M	L	
Industry Culture										
Business Culture							M			
Organizational Culture	M	M	M	H	M	M	M	M	L	H
Merger Type	M	H	M	H	H	M	H	M	M	M
Language		Y			Y					
Cultural Fit	H	M		H	M		M	H		H
Antagonism	H	M	L	H	M	M	L	M	L	H
Acculturation Mode	H	M	M	H	L	M	H	M	L	H
Force-Field Analysis	H	M	M	H	M	M	H	M	M	H
Predicted Level of Cultural Conflicts (Mo)	**H**	**M**	**M**	**H**	**M**	**M**	**M**	**M**	**L**	**H**
Merger Type	x	x	x	x	x	x	x	x	x	x
Cross-Cultural Analysis										
Acculturation Mode										
Cultural Due Diligence										
Culture Audit		x	x	x		x	x		x	x
Common Identity		x	x	x	x	x	x	x	x	x
Communication	x	x	x	x	x	x	x	x	x	x
Cross-Cultural Training		x	x	x	x	x	x		x	x
Strong Leadership		x		x			x			
Speed		x		x			x			
Consultants		x		x		x	x			x
Perceived Level of Difficulties in Integration	**L**	**M**	**L**	**H**	**M**	**M**	**M**	**?**	**L**	**H**
Financial Outcome	H	H	L	H	H	M	H	?	M	M
Overall Outcome	H	H	M	H	?	M	H	?	M	M

1. Cultural Factors

Levels of Cultural Differences

Eight of the ten cases were international and two domestic. National cultural differences were perceived as an issue in all but one of the international cases, Case Y. Industry culture was not explicitly seen to affect any of the cases, which could be attributed to the fact that diversification was not the motivation behind any of the deals, as discussed earlier. Business culture was identified as a factor in just 1 case, the merger between the Datex and Ohmeda units. Organizational cultural differences, on the other hand, were identified in all 10 cases. In Case X, the level of these differences was perceived to be low, as the organizational cultures of the acquirer and the acquired were found to be surprisingly similar. By contrast, the Merita case and Case Y ran into an especially high level of organizational cultural differences. In the Merita case, SYP and KOP had strong and distinct cultures, which stemmed from the long histories of the two parties. In Case Y, the difference mainly pertained to the size of the companies – the small acquired firm was used to a more liberal and quicker pace of implementing ideas. In the remaining 7 cases, the level of organizational cultural differences was perceived to be moderate, in other words although differences existed, they were not perceived significant.

Merger Type

None of the cases were of merger type 1 (conglomerate mergers, Olie 1990), in other words the only merger type predicting a low level of culture-related problems. Tampella Forest, Engström and Case Y were clear-cut absorptive acquisitions (type 3, predicting a moderate level of difficulties), since the intention was to achieve synergy and a clear power differential existed in each. Consolidated Papers was a redesign merger case (type 4, moderate level of difficulties), because a clear power differential existed, and although organizational integration was not the objective, Stora Enso exerted its influence and imposed some of its principles on the acquired company. Case X could initially also be classified as a redesign merger, referring to the initial, limited integration required by the acquiring company, Company A. In the long run, however, the deal could be considered an absorptive acquisition (reflecting the intended complete integration).

The initial deal behind Outokumpu's Case One was a merger/marriage (type 2, high level of difficulties), since the two parties were of approximately equal power (profitability vs. size) and the idea was to obtain synergies. The more recent transaction, Outokumpu's acquisition of the full ownership of the company, however, could be classified as a redesign merger. The corporation is obviously more powerful than the acquired company, which is now one of its business units, and although the company will mostly be allowed to carry on as usual, some functions will be integrated. The redesign merger case was actually the one focused on in this study, although the initial merger was acknowledged to have an impact on it.

Stora Enso, Datex-Ohmeda, Merita and Merita-Nordbanken could be classified as mergers/marriages (i.e. two partners of more or less equal strength, which have decided to blend their operational and managerial functions). Although Ohmeda was clearly the acquired party, the fact that it was merged with the Datex unit, which was half its size, made the transaction a merger/marriage by nature

Language Problems

Despite the fact that 8 of the cases were international, in only 2 of them were language problems specifically mentioned as an issue, namely Stora Enso and Merita-Nordbanken.

The Model of Cultural Fit

The assessment of the model of cultural fit (Cartwright & Cooper 1996) varied depending on the type of merger of the case, as was proposed by the model. In acquisitions (including redesign mergers), an (empty) was assigned to 3 cases where the level of individual freedom was perceived to increase or not change (referring to "things will go well" suggested by the theory), namely Consolidated Papers, Engström and Case X. An (H), indicating a predicted high level of difficulties, was given to those 3 in which it was perceived to decrease ("problems will occur"), in other words Tampella Forest, Case One and Case Y. In mergers, an attempt was made to determine whether the cultures of the two parties were adjoining types. This was perceived to be moderately so in Stora Enso, Datex-Ohmeda and Merita-Nordbanken (some cultural distance both organizationally and nationally) and not so in the Merita merger between SYP and KOP (which represented a rather large organizational cultural distance between the parties).

'Us vs. Them' Antagonism

The level of the 'us vs. them' antagonism (Sales & Mirvis 1984 and Olie 1994) could be assumed to have been low in 3 cases: Consolidated Papers, Datex-Ohmeda and Case X. This was so mainly due to the enthusiastic response towards the acquisition in all cases (in the Datex-Ohmeda case excluding the top management, whose power was reduced due to the company being split up).

A moderate level of antagonism could be associated with Stora Enso, Engström, Case One and Merita-Nordbanken. In Stora Enso, the antagonism was evident from the 'national contests' described earlier, as well as from the fact that the mindset towards the merger was not specifically enthusiastic. In Case One, the antagonism can be expected to have increased due to the loss in status from a company listed on the stock exchange to a business unit of a corporation. In Engström and Merita-Nordbanken, the mindset towards the deal was rather positive, but the cultural differences encountered (quality-culture in the former and national cultures, i.e. Swedes vs. Finns in the latter) may have increased the antagonism somewhat.

A high level of antagonism was apparent in the remaining 3 cases. In the Tampella Forest case, the antagonism could be attributed to the fact that the company was forced into the deal due to the poor financial state it was in. In Merita, the antagonism was exceptionally strong due to the long history of fierce competition, as mentioned earlier. And in Case Y, the initial unrealistic expectations turning into disappointments can be assumed to have been the cause behind the strengthened antagonistic feelings.

<u>Acculturation Models</u>

Congruence, and thereby a predicted low level of acculturative stress, was thought to be found in 2 cases (Merita-Nordbanken and Company A's Case X), some congruence in 4 (i.e. moderate stress in Stora Enso, Consolidated Papers, Engström and Outokumpu's Case One), and incongruence in 4 (high stress in Tampella Forest, Merita, Datex-Ohmeda and Company A's Case Y). (See Appendix D: Preferred Modes of Acculturation for a table presenting the case-by-case analysis of the preferred acculturation modes based on the four dimensions listed above).

None of the cases were perceived to explicitly point to deculturation, i.e. to both weak forces of cultural differentiation as well as weak forces of organizational integration, which would have predicted a low tension system in the Force-Field Analysis of Acculturation (Elsass & Veiga 1994). A moderate level of tension was predicted by 6 of the cases, in other words cases purporting strong forces of cultural differentiation and weak forces of organizational integration (separation) or vice versa (assimilation), or a moderate level of either or both of the forces. A high level of tension could be predicted by 4 cases, where both of the forces were identified as being strong (i.e. Tampella Forest, Datex-Ohmeda, Merita and Case Y). (See Appendix E: Force-Field Analysis of Acculturation for a table on the force-field analysis concerning the embedded cases).

2. Cultural Management Efforts

The first issue that comes across from the management side of Table 10 is the fact that none of the pre-integration phase management efforts have been checked in any of the cases (the understanding of the merger type is not thought of as an effort, but an underlying element).

A culture audit of sorts (such as a values and attitudes -survey in Stora Enso or a study on the perception of differences in Merita), was mentioned in 7 of the cases, the exceptions being Tampella Forest, Outokumpu's Case One and Merita-Nordbanken. The results of the culture audit were utilized in the subsequent integration efforts in all of the 7 cases where one was conducted. The development of or introduction to a common identity, which was undertaken in all but the Tampella Forest case, consisted of the development of mutual values in all of the merger cases, and the introduction to the latter in the acquisition cases. Cross-cultural training was evident in all except Tampella Forest and Case One, but was for example utilized only to a modest extent in the Engström case, where the culture audit had revealed a relatively low level of cultural differences between the parties. The significance of strong leadership and speed was explicitly brought up in the Stora Enso, Datex-Ohmeda and Merita cases. Finally, consultants were mentioned as having taken part in the cultural management in 5 cases.

3. Overall Performance

Perceived Level of Difficulties in Integration

The integration in Tampella Forest, Consolidated Papers and Case X was perceived to be relatively straight-forward (depicted by an "L" in Table 10 in the perceived level of difficulties in cultural integration). Although many of the factors in the Tampella Forest case would have indicated a high level of problems in cultural integration, the high power differential between Enso and Tampella Forest can be assumed to have made the integration relatively uncomplicated. The culture of the acquiring party was imposed on the acquired without much discussion on the subject. The enthusiastic response towards the deal in Consolidated Papers, as well as the fact that complete integration was not intended, may have facilitated this acquisition. The positive mindset in Case X, as well as the surprising similarity in the cultures of the two parties, may have made the cultural integration in this case relatively easy.

Stora Enso, Engström, Datex-Ohmeda and Merita-Nordbanken were seen to represent a moderate level of perceived difficulties. In addition to being relatively large mergers among equals, Stora Enso, Datex-Ohmeda and Merita-Nordbanken all faced a moderate level of cultural differences at both a national as well as an organizational level, which further complicated the transactions. Datex-Ohmeda was, furthermore, quite a complex acquisition, because it incorporated both several acquired units as well as several acquirers. The fact that Datex and Ohmeda shared a similar value base, Enso and Stora shared many similarities in their organizational cultures and the merger between Merita and Nordbanken involved a relatively low level of integration, can all be presumed to have made the cultural integrations somewhat easier in these cases.

The cultural integration in the Merita merger and Case Y were perceived to be very challenging. The strong and distinct organizational cultures of SYP and KOP, the exceptionally strong 'us vs. them' antagonism, and the fact that the transaction was a restructuring case involving a significant number of layoffs and, consequently, the strong emotions involved, all rendered the Merita case extremely difficult. Case Y, by contrast, was a great example of how a few people can hamper the integration of a relatively small acquisition, even if the power differential between the two parties is significant. Although the problem could be in part attributed to the personalities of these people, their desire to maintain a separate cultural identity played an important role in the proceedings. The integration efforts pertaining to the incorporation of Case One to Outokumpu have only recently begun, and the cultural integration difficulties have not yet been assessed (question mark in Table 10).

Perceived Level of Success

What comes to the perceived financial success of the cases, Consolidated Papers was clearly a financial failure (at least in the short run), whereas Engström, Case X and Case Y were not perceived to be particularly successful financially, but not financial failures either. In Case One, it was too early to say, while the remaining 5 cases were considered financial successes. As for the overall outcome, none of the cases were regarded as complete failures (which could be expected considering the fact that companies seldom like to present their failures). Four of the cases (Consolidated Papers, Engström, Case X and Case Y) were considered relatively successful and four (Tampella Forest, Stora Enso, Datex-Ohmeda and Merita) very successful. In Case One and Merita-Nordbanken, it was too early to say.

APPENDIX D: Preferred Modes of Acculturation

		Attractiveness of the Acquirer	Desire to preserve own culture	The Acquired Firm's Preferred Adaptation Process	Degree of Relatedness of Firms	Degree of Multiculturalism	The Acquiring Firm's Preferred Adaptation Process	Congruence	Predicted Degree of Acculturative Stress
Stora Enso	Tampella Forest (Enso)	L	H	Separation	H	L	Assimilation	N	H
	Stora Enso (Enso)	M	H	Integration/ Separation	H	H	Integration	P	M
	Consolidated Papers	H	M	Integration/ Assimilation	H	H	Integration	P	M
Nordea	Merita (SYP)	L	H	Separation	H	M	Integration/ Assimilation	N	H
	Merita-Nordbanken (Merita)	M	M	Integration/ Assimilation	H	M	Integration/ Assimilation	Y	L
Datex-Ohmeda	Engström (Datex)	H	M	Integration/ Assimilation	H	L	Assimilation	P	M
	Datex-Ohmeda (Datex)	H	H	Integration	H	L	Assimilation	N	H
Outokumpu	Case One	H	M	Integration/ Assimilation	M	H	Integration/ Separation	P	M
Company A	Case X	H	L	Assimilation	H	L	Assimilation	Y	L
	Case Y	H	H	Integration	H	L	Assimilation	N	H

Legend: L = Low, M = Moderate, H = High, Y = Yes, N = No, P = Partial, (...) = Firm considered the acquiring firm, if other than case company.

The table is based on the preferred types of adaptation process and the acculturative model of Nahavandi and Malekzadeh (1988) (see pages 22-24). Taking Enso's Tampella Forest acquisition as an example, it can be concluded that Enso was not perceived to be a specifically attractive acquirer (L) and the Tampella Forest party was keen on preserving their own culture (H), which would therefore point to their preferred adaptation process of separation. Enso's preferred mode, on the other hand, was assimilation, since the firms were very related (H) and Enso did not tolerate multiculturalism in this case (L). The ensuing incongruence (N) would thereby predict a high level of acculturative stress according to the theory.

APPENDIX E: Force-Field Analysis of Acculturation

		Forces of Cultural Differentiation	Forces of Organizational Integration	Acculturation Mode	**Tension System**
Stora Enso	Tampella Forest	Strong	Strong	Acculturative Tension	**High**
	Stora Enso	Moderate	Strong	Assimilation/ Acculturative Tension	**Moderate**
	Consolidated Papers	Moderate	Strong	Assimilation/ Acculturative Tension	**Moderate**
Nordea	Merita	Strong	Strong	Acculturative Tension	**High**
	Merita-Nordbanken	Moderate	Moderate	Separation/ Assimilation	**Moderate**
Datex-Ohmeda	Engström	Moderate	Strong	Assimilation/ Acculturative Tension	**Moderate**
	Datex-Ohmeda	Strong	Strong	Acculturative Tension	**High**
Outo-kumpu	Case One	Strong	Weak	Separation	**Moderate**
Company A	Case X	Weak	Strong	Assimilation	**Moderate**
	Case Y	Strong	Strong	Acculturative Tension	**High**

The table is based on Elsass and Veiga's (1994) force-field analysis of acculturation (see pages 24-27). Taking the Tampella Forest acquisition as an example, it can be concluded that both the forces of cultural differentiation and the forces of organizational integration were identified to have been strong. This would point to the acculturation mode of acculturative tension, which, according to the theory, predicts a state of high acculturative tension.