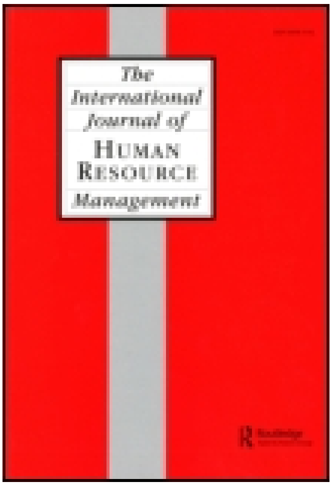

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Cultural influences and the mediating role of socio-cultural integration processes on the performance of cross-border mergers and acquisitions

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Cultural influences and the mediating role of socio-cultural integration processes on the performance of cross-border mergers and acquisitions

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This paper reports findings from a longitudinal case study (2005–2011) of a merger between an Austrian and a German energy provider. I develop a model of socio-cultural integration processes based on an analysis of critical incidents expressed in 71 problem-centred interviews and observations with acquired and acquiring employees at four different points of time: immediately before the takeover and during the first negotiation talks, and one, three and six years after the takeover. The findings suggest that the relationship between national and organizational cultural differences and M&A outcomes is mediated by socio-cultural integration processes defined in terms of the formation of interpersonal relationships, trust and shared identity. Based on these findings I formulate specific propositions and build an evidence-based model of M&A socio-cultural integration processes that guides future research and practice.

Keywords: M&A outcomes; national and organizational cultural differences; socio-cultural integration processes

Introduction

It has often been argued that organizational and national cultural differences can be the main source of hostility and distrust between two merging organizations (e.g. Buono and Bowditch 1989; Cartwright 1997; Krug and Nigh 2001), and that they are responsible for the high failure rates of mergers and acquisitions (M&As) (King, Dalton, Daily, and Covin 2004). The ability to integrate culturally has been ranked as more important to the success of acquisitions than financial and strategic factors (Cartwright and Cooper 1996).

Despite the fact that a growing field of inquiry has been directed at the implications of cultural differences for the post-merger integration process (Cartwright and Schoenberg 2006), the results have remained ambiguous. While some studies (e.g., Buono and Bowditch 1989; Chatterjee, Lubatkin, Schweiger, and Weber 1992; Olie 1994; Datta and Puia 1995) found national and organizational cultural differences to be negatively associated with M&A outcomes, others have argued that cultural differences may also be a source of value creation in cross-border M&As (Larsson and Risberg 1998; Morosini, Shane, and Singh 1998).

In response to this, recent reviews and meta-analyses (Stahl and Voigt 2005, 2008; Teerikangas and Very 2006) have called for further exploration of cultural dynamics of M&As. Future research should go beyond static analyses of cultural differences and focus on the multifaceted nature of organizational and national cultures and the processes through which cultural factors impact M&A outcomes (Vaara, Sarala, Stahl, and Bjorkman 2010). Accordingly, greater attention should be directed towards the role of possible mediating variables (Stahl and Voigt 2005, 2008; Vaara et al. 2010).

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For instance, socio-cultural integration processes conceptualized as a mediating variable in the relationship between cultural differences and M&A outcomes deserve more attention (Stahl and Voigt 2008). In this study I don't deal with the question of whether or not cultural differences matter in M&As, but rather investigate how they affect the integration process (Reus and Lamont 2009). I explore how socio-cultural integration processes defined in terms of the formation of interpersonal relationships, trust and shared identity are affected by national and organizational cultural differences and how socio-cultural integration processes in turn affect M&A outcomes (level of cooperation, level of stress, resistance and turnover rate). I use a longitudinal case study of a merger between an Austrian and a German multinational (GC) energy provider to establish causality. Participant observations and 71 problem-centred interviews were conducted with acquired and acquiring employees at four different points of time. Interviews were conducted with representatives from both companies including those who are still employed and those who left the new corporation. Having the longitudinal element allowed me to highlight the persisting negative consequences of the merger over time.

The findings show that how different one culture is from another has limited meaning until those cultures are brought into contact with each other. Success of M&As depends upon the quality of socio-cultural integration processes. Based on the previous literature and ultimately my findings, I develop a model of cultural dynamics with the following variables: national and organizational cultural categories as the independent variable (IV); socio-cultural integration processes as the mediating process variable; and M&A outcomes as the dependent variable (DV). In addition, I formulate a set of propositions regarding these mechanisms through which cultural differences affect M&A outcomes. By assessing the influence of additional process-oriented variables in an existing framework of research on cross-border M&As, I make a theoretical contribution (Whetton 1989); but more valuably, I show how these factors alter our understanding of post-merger integration dynamics.

In the following text I present first the theoretical background of my study. This is followed by a comprehensive outline of the research methodology, a detailed presentation of the findings and a subsequent discussion of those findings.

Literature review

My study of M&A outcomes is informed by two concepts: socio-cultural integration processes, and national and organizational cultural differences. These two concepts motivated the research questions, guided the data collection and directed the theoretical analysis of the empirical findings.

Socio-cultural integration processes in the context of M&As

Regarding socio-cultural integration, I assume that the cause–effect relation between national and organizational cultural differences and M&A outcomes can only be fully understood if the mediating influence of socio-cultural integration processes is taken into consideration. In order to determine important aspects of socio-cultural integration I focus on social capital theory (Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998). Research has explicitly and implicitly focused on the notion of social capital to explain the nature of inter-organizational alliances and M&As (Shan, Walker, and Kogut 1994; Ahuja 1996; Madhavan 1996; Koka and Prescott 2002). Defined 'as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit' (Nahapiet and Ghoshal 1998, p. 243) the nature of social capital is important to explain performance differences among merging firms for two reasons (Koka and Prescott 2002). First, it provides a way to characterize a firm's total set of relationships. Second, the emphasis is on the access to and flow of resources to the firm through its alliances. The facets of social capital are considered in terms of three clusters: the structural, the relational and the cognitive dimensions of social capital. Although the three dimensions are separated analytically, Nahapiet and Ghoshal (1998) recognize that many of the features are, in fact, highly interrelated. The structural dimension of social capital refers to the overall pattern of connections between employees – that is, who you reach and how you reach them (Burt 1992). In contrast, the relational dimension describes the kind of personal relationships people have developed with each other (Granovetter 1992). The cognitive dimension refers to those resources providing shared interpretations, and systems of meaning among parties (Cicourel 1973). Aspects of M&A socio-cultural integration that have been identified as relevant to synergy realization are the creation of positive relationships (Stahl and Voigt 2005, 2008), the emergence of a sense of trust (Krug and Nigh 2001; Stahl and Sitkin 2005) and shared identity (Larsson and Lubatkin 2001; Van Knippenberg, Van Knippenberg, Monden, and Lima 2002) among organizational members. They map quite well on structural (interpersonal relationships), relational (trust) and cognitive (shared identity) social capital and justify the use of social capital as a guiding theoretical frame.

The structure of social network ties is of particular importance in the context of cross-border M&As. Empirical evidence has shown that extensive social ties across merging firms will foster an enhanced flow of information, leading to better decision making (Ishii and Xuan 2010). The overall pattern of connections between the employees of two merging firms will affect the degree to which organizations can use their respective partner's external knowledge and learn from them (Yli-Renko, Autio, and Sapienza 2001). Thus, I expect that cross-firm social relationships will have a strong impact on the outcomes of socio-cultural integration.

Trust also plays a key role in the integration process following an M&A (Stahl and Sitkin 2005). Evidence about the importance of trust for M&A success has been drawn from the research on intra- and inter-organizational trust. This research has shown that trust can improve problem solving and communication and can enhance employee commitment (Jones and George 1998; Rousseau, Sitkin, Burt, and Camerer 1998; Dirks and Ferrin 2001). Trust is also of critical importance to the formation and implementation of cooperative alliances between firms (Das and Teng 1998; Zaheer, McEvily, and Perrone 1998). Cooperative alliances share many characteristics with M&As and therefore it is not surprising that trust also plays an important role in the M&A process (Stahl and Sitkin 2005). Interviews with managers and employees of acquired organizations (Krug and Nigh 2001) have confirmed that trust is of critical importance to successful integration of merging firms.

A shared identity is the ultimate goal of successful acculturation. Viewed from a social identity perspective, a merger may be defined as 'a formal re-categorization of two social groups as one new group' (Van Knippenberg et al. 2002, p. 2). Given that this new group incorporates one's former pre-merger group the process can be seen as a continuation of this group. However, the merged group is new. It now also incorporates the merger partner, and thus implies a change in group membership (Van Knippenberg et al. 2002). This interplay between 'new' and 'old' can result in the creation of a shared identity whereby the beliefs, assumptions and values of two previously independent work forces form a jointly determined culture (Larsson and Lubatkin 2001). In case two merging firms manage to create a shared identity, the expectation is that this will result in above-average performance.

Consequently, the first research question is, ‘How are interpersonal relationships, trust and shared identity enacted and what role do they play in bringing about positive or negative outcomes in the context of M&As?’

Dimensions of cultural influences and their impact on M&A outcomes

The second central building block of this study is the concept of culture. When discussing culture in the context of M&As, we must distinguish between national and organizational culture. National culture defined as ‘the collective programming of the mind’ (Hofstede 1980, p. 25) has been measured in terms of differences in management style, business practices or work-related values and norms. The national cultural distance hypothesis suggests that the difficulties associated with cross-cultural contact increase with growing cultural differences between the nations in which the two organizations are embedded (Hofstede 1980). Based on the premise that national culture operates at a deeper level and is learnt earlier on (Hofstede 1980), it was predicted that cultural differences at the national level create relatively greater barriers to successful integration than do organizational cultural differences (Stahl and Voigt 2008).

The concept of organizational culture was introduced to the M&A literature in the early 1980s. Organizational culture has been defined as ‘a set of norms and values that are widely shared and strongly held throughout the organisation’ (O’Reilly and Chatman 1996, p. 166). In line with the culture fit perspective it has been proposed that organizational cultural differences can pose significant barriers to achieving integration benefits, and that they have to be considered at an early stage of the M&A process (Cartwright and Cooper 1996). The degree of culture compatibility between the organizations involved in a merger or an acquisition has been identified as a critical determinant of the subsequent integration process (David and Singh 1994; Cartwright and Cooper 1996; Javidan and House 2002).

My aim is to elucidate the simultaneous effects of organizational and national cultural differences on international M&As. Therefore, I employ a more in-depth approach to the study of cultural issues in M&As and use a longitudinal research design. The second research question addresses, ‘How do specific cultural categories impact on specific aspects of socio-cultural integration such as the formation of interpersonal relationships, trust and shared identity which then ultimately result in positive or negative M&A outcomes?’

Methodology

Sample

This longitudinal study of the merger between a leading Austrian service provider and a GC was conducted in the time period from 2005 to 2011. Participant observations and interviews with 41 acquired and 30 acquiring employees were conducted at four different points of time: immediately before the takeover and during the first negotiation talks, and one, three and six years after the takeover.

The GC is one of the world’s leading suppliers of a wide range of products, solutions and services in the field of energy technology. It is active in around 190 regions and employs 360,000 people from around 140 nations. The Austrian engineering corporation (AC) used to be a focused technology and service provider with leading international market positions in the power generation, transmission and distribution segments. It employed around 17,000 people worldwide with subsidiaries in 45 different countries.

Both companies operated in related industries. This provided a very interesting setting for my research study. Related M&As require higher levels of integration of cultural differences and thus often create obstacles to integration benefits by increasing socio-cultural problems in the post-merger integration phase (Stahl and Voigt 2008). In order to avoid top management bias data were collected from a wider range of representatives from different organizational levels and departments (see Vaara et al. 2010). This included project team leaders and members, engineers, software developers, financial controllers, chief executive officers (CEOs), directors, etc. The fact that the companies operated in different national contexts and had very different organizational cultures provided a good justification for the choice of the research context. More detailed information about the informants is provided in Table 1.

Data collection: problem-centred interviews and participant observations

The primary source of data was the problem-centred interview. The problem-centred interview focuses on reconstructing individual and group specific forms of meaning. Before the interviews can be carried out, a literature review needs to be conducted regarding the specifics of the social phenomenon to be analysed (first phase). The interviewer then approaches a certain theme by combining an open narrative at the beginning with prepared questions in later stages of the interview (second phase). A short questionnaire, which asks for socio-statistical data relevant to the analysis, concludes the interview session (third phase). Emphasis is put on the perspective of individuals by analysing important personal experiences. Interviewees are asked to talk about these personal experiences, to incorporate them into their action orientations and to finally reflect on them (Scheibelhofer 2008). The method has the advantage of neutralizing the contradiction between being either completely directed by theory or fully open-minded without any theoretical preconceptions (Witzel 2000).

In the second phase of the problem-centred interview the critical incidents approach was employed. This is a behaviour-centred methodology that was developed by Flanagan (1954) to identify behavioural characteristics of effective and ineffective job performance. It has been viewed as particularly appropriate for cultural analysis (Gundry and Rousseau 1994). The approach has been described as 'a qualitative interview procedure which facilitates the investigation of significant occurrences (events, incidents, processes, or issues) identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects' (Chell 1998, p. 56). The focus of my attention was on how individuals coped with problems resulting from cultural differences. For each incident, the respondent was asked to recount the circumstances that led to the incident, the solutions used to solve the problem, and the consequences of the action undertaken.

On average, the interviews lasted 52 minutes. Fifty-seven out of 71 conversations were audio-taped, resulting in 684 pages of transcript. The interviews were conducted in German and English. Four investigators were involved in the data collection. The convergence of their observations enhanced confidence in the findings while their complementary insights added to the richness of the data (Eisenhardt 1989; Gephart 2004). The researchers also spent considerable time in the companies observing M&A dynamics. The data obtained from participant observations produced an immense amount of detailed description and were used for the purpose of triangulation. Interview findings and

Table 1. Sample description.

Interviewee's employer before the merger was announced	*Year interview was conducted*	*Gender*	*Average age*	*Education*	*Average duration of an interview*	*Year interviewee left the acquirer*
AC	2005	9 male; 3 female	40	5 MSc; 7 BSc	1 h 5 min	1 in 2005; 1 in 2006; 1 in 2007; 4 in 2008; 5 stayed
GC	2005	17 male; 1 female	44	12 MSc; 6 BSc	1 h 4 min	18 stayed
AC	2006	10 male; 2 female	44	7 MSc; 5 BSc	48 min	3 in 2006; 3 in 2008; 6 stayed
GC	2006	3 male; 1 female	36	4 MSc	42 min	4 stayed
AC	2008	2 male; 2 female	47	2 MSc; 2 BSc	47 min	1 in 2009; 1 in 2010; 2 stayed
GC	2011	6 male; 2 female	42	6 MSc; 2 BSc	49 min	8 stayed
AC	2011	10 male; 3 female	53	10 MSc; 3 BSc	51 min	2 in 2008; 3 in 2009; 2 in 2010; 6 stayed
Total: AC and GC	2005–2011	57 male; 14 female	44	46 MSc; 25 BSc	52 min	22 left; 49 stayed

observations were discussed in numerous meetings among the four researchers, leading to new knowledge generation.

Coding and analytical process

ATLAS.ti software for qualitative data analysis was employed. In the first stage, all four interviewers were involved in the coding with ATLAS.ti. Reliability was reached by all coders coding first a sample of eight interviews in parallel and independently from each other, and subsequently discussing together the results on the codes derived from the analysis.

The first step was to identify excerpts from the interviews and observational notes which pertained to three theoretically derived categories of concepts: (1) culture, (2) socio-cultural integration processes and (3) M&A outcomes. In the next step first-order codes, which captured nuances of the raw data in the categories, were derived (Strauss and Corbin 1998). For instance, examples of first-order codes regarding cultural differences pertained to differences in the level of assertiveness, uncertainty avoidance and communication style between German and Austrian employees, process versus results orientation, blame versus non-blame culture, differences in the level of organizational identification, ethnocentric versus multicultural orientation, tight versus loose hierarchy and task versus employee focus. These cultural differences were more closely associated with socio-cultural integration outcomes than value creation for the shareholders (see also Stahl and Voigt 2008). Thus, examples of first-order codes regarding outcomes that were derived from the data were level of cooperation, perceived stress, resistance and turnover rate. These outcomes were found to be critical indicators of M&A success and failure from the perspective of the respondents. As a third step, first-order codes were assembled into higher order themes (Strauss and Corbin 1998). At the same time the insights that emerged from the data were tied to the existing literature. This enhanced the internal validity, generalizability and conceptual level of the study (Eisenhardt 1989). For example, with regard to socio-cultural integration processes, I derived the theme 'shared identity', which collapsed the first-order codes 'inter-group polarization', 'inter-group identities', 'out-group perceptions' and 'perceived cultural distance'. The emergence of the data structure is illustrated in Figure 1:

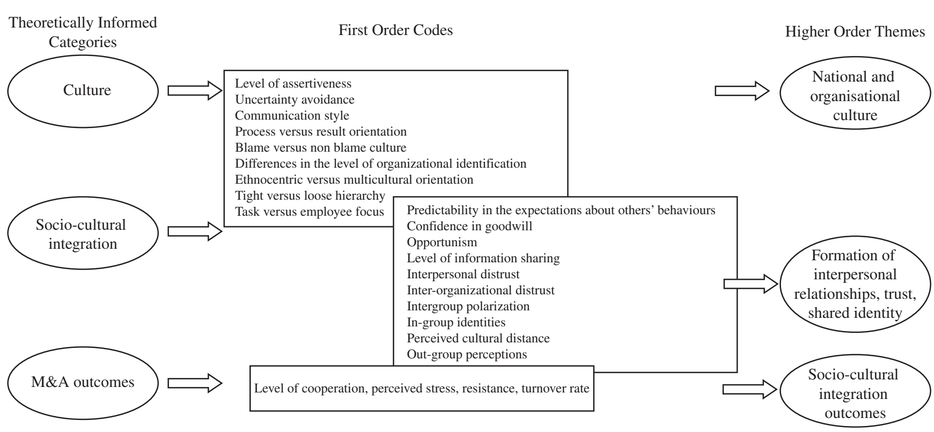

Figure 1. Emergence of data structure.

Finally the findings were merged into a tentative model of M&A dynamics that I will present in the following sections.

Empirical findings

The following section contains a detailed description of the influences of specific cultural categories on specific socio-cultural integration processes, followed by an explanation of the impact of these socio-cultural integration processes on M&A outcomes. Based on the empirical findings, I develop a model of M&A socio-cultural integration processes and define propositions for future quantitative research.

The influence of specific cultural categories on socio-cultural integration processes

Subtle but disturbing cultural differences between Austrian and German employees surfaced when they started working together. Austrian respondents described their German colleagues as very assertive during interpersonal interactions at work. The language that people used tended to be straightforward. While Germans preferred direct criticism (‘this is totally wrong’) and tolerated conflict as an acceptable approach, Austrians emphasized diplomatic criticism (‘this is a very interesting issue, but maybe we should also concentrate on this fact’). In addition, Austrians stressed the need for a less confrontational approach to interpersonal relations, while for Germans getting the task done and achieving high quality standards was more important than interpersonal consideration. Differences in the level of assertiveness and communication styles had a detrimental impact on interpersonal relationship building between these two cultural groups. The resulting interpersonal conflicts led to stress and emotional strain in cross-cultural interactions. While Austrians continued to put emphasis on concern about others, being friendly and sensitive, Germans remained task-oriented and direct. This situation is illustrated by the following quotation:

> Effective leadership is about dealing with people as much as it is about dealing with tasks, deadlines, strategy etc ... If you have managers who are insensitive to the feelings of others, how can you expect personal relationships to develop ...? How? You cannot deal effectively with revolutionary change, the type of change that we are facing right now, if you don’t have good relationships with your employees. (AC, CEO, Mexico)

Moreover, Germans relied on rules and institutional procedures to reduce stress when facing uncertainty. Consequently, they introduced many rules, regulations and constraints in the lives of the Austrian employees. For them, getting the task done on time and minimizing errors seemed to be most important. Austrians very soon gained the impression that rule-breaking behaviour could be punished and this gradually decreased their level of trust in German leaders. The necessary psychological safety for mutual learning and effective collaboration was not provided.

> Germans come here, try to roll over us with a steamroller, and then they find a little bump and become desperate because they don’t know how to deal with it. This is really typical German behavior ... It is simply the fact that they don’t know how to deal with uncertainty ... They need clear structures and many processes in place ... Their German thoroughness makes them far too anxious ... They have this pathological problem that they must have everything under control ... Austrians on the other hand are lax, loose and more flexible, but at the same time also slightly less sorted and more disorganized. (AC, Member of the Board of Directors)

A high level of uncertainty avoidance in combination with assertive behaviour limited the formation of *interpersonal relationships, mutual trust and shared identity* among Austrian and German employees. The fact that German employees were perceived as more assertive, confrontational and aggressive in social relationships than their Austrian counterparts had a negative impact on the number of relationships between the acquired and acquiring employees. At the same time, the reliance on social norms and rules of behaviour in combination with bureaucratic practices harmed the formation of trust and worsened the quality of existing relationships. The underlying national cultural value differences also decreased the potential creation of a jointly determined culture.

These findings are in accordance with the GLOBE study results that indicate higher scores of the societal culture practices on the dimension of uncertainty avoidance in West Germany compared to Austria (Szabo, Brodbeck, Den Hartog, Reber, Weibler, and Wunderer 2002). While the GLOBE study scores of the societal culture practices on the dimension of assertiveness are higher in Austria than in Former West Germany, which contrasts my findings, the value dimension of assertiveness shows higher scores in Former West Germany than Austria. Societal cultural practices and values do not always go in parallel. Differences may reflect societal changes (Szabo et al. 2002). The higher level of desired assertiveness in Former West Germany compared to Austria may explain why my data contrasts the findings concerning cultural practices of the GLOBE study.

Consequently, I hypothesize the following:

Proposition 1. High levels of assertiveness and uncertainty avoidance among German representatives in combination with direct criticizing and confrontational behaviours will have a detrimental impact on the formation of interpersonal relationships, trust and shared identity in Austrian-German groups.

Based on the fact that national culture operates at a deeper level, I assumed that cultural differences at the national level would create greater barriers to successful collaboration than organizational cultural differences. However, the empirical findings revealed the opposite. While only 15 respondents related the problems faced in the process of socio-cultural integration to national cultural differences, all agreed that organizational cultural differences were the main cause for negative interactions between Austrian and German employees. In Table 2 I summarize the main differences in organizational cultures of the two firms, provide relevant citations to substantiate my claims and list aspects of socio-cultural integration that were affected by these differences.

Process-oriented project versus results-oriented product organization

While GC put great emphasis on processes, AC relied much more on results. Due to its strong process-orientation it was reported that GC exhibited superior performance in stable environments. Yet in the context of M&As, its strong reliance on stable processes decreased the company's adaptability to changed external demands. As a product organization the firm's sales force and its organization of marketing, production, procurement activities, etc. were deployed so that a separate division was responsible for each of its major products or product groups. Individuals were highly specialized and worked on the accomplishment of their tasks. This structure encouraged more individual work and facilitated less interaction between employees. The maintenance of processes and individual contributions were seen as key success factors by GC respondents.

AC had a project organizational structure. As such, the company employed a framework of policies and procedures to break its organization into manageable groups. This structure enabled AC to function with fewer managers and to focus on the

Table 2. Organizational cultural differences and their impact on aspects of socio-cultural integration.

Organizational culture	*Citations*	*Socio-cultural integration aspects affected*
AC: Results-oriented product organization	'At GC you have 1000 processes and 100 people who are responsible for managing these processes. So, I always had the feeling that GC aims at satisfying the system in order to receive a certain percentage of responses. What is really written down is not that relevant. It is important that on day X you have received feedback that needs to be written down in a file!' (AC, CEO, Indonesia)	Interpersonal relationships and trust
GC: Process-oriented project organization	'Processes are very important for us. How do you want to run a multinational company without having global processes in place? Not possible if you ask me! So, we asked AC employees to adapt our internal processes. They were invited to attend numerous workshops. I know that they were not very happy about this, but this is simply how it works in our house!' (GC, Project manager)	
AC: Weak culture	'Many of these lateral thinkers sometimes, how shall I put it, these free spirits that are difficult to control, but which were a great asset to our company, you will find few of these, or significantly fewer than here, at GC.' (AC, Member of the Board of Directors)	Shared identity
GC: Strong culture	'At GC we have a strong corporate culture. As you know we are a big global company. Without global coordination and enhanced control we would not be able to function as such.' (GC, Employee)	
AC: Non-blame culture	'The first thing you have to do if you are exposed to a serious problem is to laugh about it and then solve it ... Don't point with the finger! Have a diplomatic approach! Stay away from stamping with the fist on the table!' (AC, Project manager)	Trust and shared identity
GC: Blame culture	'You know how it works here at GC .... If the bottom line is ok, everything is good. If this is not the case, then you could face some serious problems.' (GC, First Assistant of GC CEO)	
AC: Multicultural orientation	'Because the company was founded in Germany, all technologies and managerial techniques are German, and once the company started expanding abroad it transferred its know-how to foreign subsidiaries. AC, as an Austrian company, was created out of many Austrian firms. Slowly the company started expanding by acquiring new enterprises in different countries. This way the company had to integrate different national cultures into its own culture .... GC was expanding from Germany and was establishing factories in different countries. AC was buying factories. This way, new cultures were brought in. This is how we created Europe. The difference between Europe and the USA equals the difference between AC and GC.' (AC, CEO Mexico)	Trust and shared identity
GC: Ethnocentric orientation	'It is great that you have your culture in your country, and that you act accordingly outside of the company. But here in the company, we would like to have our culture.' (GC, Team member)	

(*Continued*)

Table 2 – *continued*

Organizational culture	*Citations*	*Socio-cultural integration aspects affected*
AC: Loose hierarchyy	'I can tell you that decision making processes take much longer at GC. People responsible for decision making are on average 15 years older than those at AC. It takes an employee much longer to get through this rigid structure and be promoted. On the other side, we are a smaller organisation, with less complicated structures and more opportunities for young, ambitious people to be rewarded for their achievements.' (AC, Member of the Board of Directors)	Interpersonal relationships
GC: Tight hierarch	'As this is the case among all large organizations, corporations or governments ... I agree that we are a hierarchical organisation with a wide span of control .... when you have reached a certain level you must join the waiting queue. I am now 40 year old and I know that if I want to get to the next level I have to wait until I am 50.' (GC, Executive officer)	
AC: Employee oriented	'What I experienced at AC is cooperation at a very high level. This cooperation was based on mutual understanding and helping each other and on joint use of available resources so that we all could reach our personal and professional goals ... Great cooperation and collaboration with a strong emphasis on employees.' (AC, Team leader)	Interpersonal relationships
GC: Task-oriented	'I would say that we are very task-oriented. The priority is to meet the deadlines, satisfy the customers and get the tasks done. This is how it works here.' (GC, Head of Group)	

achievement of results. Hierarchies were flattened, workers were assigned to teams in business units, and these teams would take some of the duties previously performed by managers. This way, employees could focus on a single production process rather than having to perform the same task for a variety of products. All workers were expected to have broad-based skills to perform multiple functions and to actively participate in detecting and solving problems. This way, synergies were created between the members of a project team. Reducing existing hierarchies and improving the information sharing processes facilitated cooperation between different departments. According to the respondents the implementation of flat hierarchies and the transfer of power to autonomous project teams were seen as critical success factors of AC. Teams had the freedom to set their own norms and values of interaction. Processes were not that important and the main emphasis was on achieving good results.

> 'While we used to have a broad scope of responsibilities, employees at GC were highly specialised and worked on the accomplishment of specific, individual tasks ... AC has always been a project organization and GC a strong product organization.' (AC, CEO, Indonesia)

Immediately after the merger, employees learnt about the differences in result versus process orientation and structures between the two companies. AC employees soon realized that they had to change their existing processes to get integrated into GC. Yet they also expected GC employees to value their organization of work, identify best practices and discuss opportunities how these could be transferred to the GC. To their surprise GC refused to engage in any kind of mutual adaptation. This in turn had a detrimental impact on the formation of *interpersonal relationships and trust*. Soon, AC employees lost confidence in the behaviour and goodwill of GC members. This was supposed to be a friendly merger and the expectation was that both parties would learn about the strengths of the other and find a way to implement these into their own structures. The realization of synergies was strongly emphasized during conversations but when it came to its realization GC members would step back. The development of interpersonal relations and trust was only possible if one could rely on its partner to fulfil obligations, behave in a predictable manner and act fairly when the opportunity for opportunism was present. However, these conditions were not provided. GC as a strong process-oriented organization with a product organizational structure refused to create synergies and learn from the result-oriented project organization of AC. Thus, I propose the following:

Proposition 2. Differences in process- and result-orientation of two merging firms will have a negative impact on the development of interpersonal relationships and trust.

Identification with the organization/strong culture and identification with the profession/weak culture

As a multinational with a strong German heritage GC was described as an organization with a clear set of norms of behaviour that were widely shared and strongly held throughout the organization. Executives strongly believed that good coordination within the firm and improved goal alignment between the employees would increase performance in the long run. Goal alignment also gave less room for debate between different parties about the firm's best interests. The widespread agreement about appropriate values and norms of behaviour increased behavioural consistency within the organization and at the same time facilitated its social control. This way the violation of behavioural norms could be corrected faster. Employees would execute their routines extremely well. They preferred a predictable stable world. Any proposed change programmes or reorganizations were treated with anxiety. The organization and its members had greater difficulty recognizing the need for change. In addition, due to normative pressures and strictly formulated code of behaviour new members were socialized quickly. This limited the length of time new members had to hold different views and pose a threat to the execution of organizational routines.

At AC employees identified more with their type of job than the organization. The company had undergone several mergers before the takeover and was highly decentralized. Respondents stressed the importance of continuous exploitation of existing knowledge and exploration of new possibilities. Executives were very good at creating sufficient incentives for employees to remain motivated to learn new things and sufficient direction and support to allow incremental learning to occur. As such, the organization showed a strong ability to perceive environmental shifts and a willingness to accept the uncertainty that accompanied fundamental changes in organizational processes. The firm used to allow individuals to hold different ideas and to incorporate new insights into the organization's procedures. By exhibiting weak socialization pressures on its employees, the corporation remained good at learning from its members.

These differences in the level of corporate identification combined with emerging anxieties about the future limited the formation of a *shared identity*. For a shared identity to emerge, both cultures had to be open for change. GC was used to performing its organizational routines with consistency. The company was not used to adapting these routines to changing environmental conditions. AC employees stressed the need for learning and modification in organizational routines. However, their claims were consistently ignored.

> The attempt to desperately try to merge two previously independent firms is nonsense. He should accept that different processes can exist next to each other ... If we say that we are a company consisting of individuals who are intelligent and wise, then we should give them credit for this and trust that they will be able to adapt ... The biggest obstacle to successful integration is the dictation from the top, the order to adjust ... This way you can't create a common identity. (AC, Member of the Board of Directors)

Consequently, I propose the following:

Proposition 3. Differences in the strength of organizational cultures (weak versus strong identification with the corporation) of two merging firms will have a negative impact on the formation of a shared identity unless there is willingness for mutual adaptation on both sides.

Blame culture and non-blame culture

While employees at AC were consistently rewarded not only for correct responses but also for detecting errors so that they could be corrected, rewards for error detection were lacking at GC. Due to the lack of safe environment employees from the Austrian company felt that innovative thinking and experimentation were not rewarded in the new firm. They felt anxious of making mistakes. The culture of management at GC was built around the assumption that mistakes could occur but that one should not make the same mistakes twice. The fear of punishment was constantly present.

These differences in organizational cultures decreased the level of trust of AC employees. The knowledge about the blame culture of GC served as a foundation for their decision whether or not to trust. They disregarded the way GC was encouraging creativity and knowledge creation. Managers would point with a finger in case something was done wrong or not according to their expectations. As a consequence, the idea of new approaches or new types of behaviour was likely to result in anxiety. Employees would fall back on behavioural patterns that were reliable in avoiding punishment in the past. From the point of view of AC employees learning based on punishment was detrimental to exploration and new idea generation. The stick over the carrot strategy could only build resistance to new learning. These differences in values and norms of behaviour between the two merging firms resulted in weak formation of *trust*. AC employees decided not to make any emotional investments in trust relationships with GC members since they didn't believe that these sentiments could be reciprocated in an organization that punished best intentions if they didn't immediately result in high returns for the firm. In addition, the differences in organizational cultures decreased *shared identity* formation. The pressure for sameness stimulated and revealed more starkly the nature of these differences. Instead of negotiating a new shared identity members from AC showed a strong attempt to re-enforce their existing cultural differences as can be seen from the following quotation.

> From the beginning they showed a strong tendency to look for one person who could be held responsible for a mistake, an accident etc. GC employees were not used to take many risks, didn't speak their mind nor did come up with new ideas in our joint meetings. We on the other hand emphasized open dialogue, creativity and regarded the cost associated to a mistake far less expensive than a stagnant blame culture. Enforcement was counterproductive and didn't

> work. Very soon we started re-enforcing our cultural identity. This ultimately harmed a shared identity formation. (AC, Engineer)

I propose the following:

Proposition 4. Differences in organizational assumptions regarding how mistakes should be handled (rewards for error detection versus punishment of errors) will have a negative impact on the formation of trust and shared identity.

Ethnocentric and multicultural orientation

At GC organizational knowledge was stored in its procedures, norms and rules. Employees from AC reported that German national culture had a strong impact on the formation of GC organizational culture. The company was founded in Germany and started expanding by building its own factories in foreign countries. Research and development activities remained centred in the corporate HQ. Technological and managerial techniques were then transferred from Germany to host-country subsidiaries of GC. Yet this link between the societal and organizational culture was less apparent to members of GC. They didn't regard Germany as a potentially major source of influence on the organizational culture of their company because it was not salient to them. However, they saw the match between high levels of individualism, high assertiveness and a direct communication style as positively related to their company's success. They believed that what was good for them would also be good for AC employees. As a consequence, they tried to transfer their management techniques and management know-how to the Austrian service provider.

AC, on the other side, used to put great emphasis on cultural diversity. The company was created out of many Austrian firms. It then started expanding by acquiring new enterprises in different countries and cultures. In order to remain successful in the host countries it had to integrate these different national cultures into its own corporate culture. By enacting the values and norms of behaviour of its international employees, which shaped managerial assumptions about the nature of employees and how the organization needed to be structured for such employees, AC created an environment of trust among its business units, subsidiaries and teams. The corporation accumulated its knowledge over time by learning from its multicultural workforce.

By trying to transfer its management techniques and management know-how to AC, GC induced a culture shock to the Austrian firm. The experience of a radical systematic change resulted in uncertainty. At the beginning it was not a question of whether AC employees wanted to adjust or not. It appeared to be the case that the majority had serious difficulties coping with enforced change on this scale. In addition, GC didn't try to combine management by confidence building, to provide orientation and to support the self-esteem of acquired members. The required adjustment to new circumstances was confusing and even traumatic for some members of AC. This in turn harmed the creation of *trust and shared identity*. Thus, I propose the following:

Proposition 5. An ethnocentric orientation that results in the enforced transfer of management techniques and management know-how from the acquirer to the acquired firm will harm the creation of trust and shared identity.

Tight and loose hierarchy

GC was characterized by tight hierarchy. The organization assumed that innovation could be implemented through authoritarian/paternalistic methods of decision making. This implied that power and influence resided in positions, statuses and roles. GC employees believed that implementing decisions in flatter organizations was more difficult since such organizations served multiple constituencies and were often team-based and geographically dispersed. From their point of view, tighter control provided more stability, continuity and predictable career paths and reward systems. In addition, each manager used to have a clear span of control, which created a set of obligations and role differentiations. Tight hierarchy also limited the level of perceived uncertainty in the organization.

At AC, on the other hand, employees strongly believed that power and influence in decision making should be a function of who has what expertise relevant to any given task to be accomplished. As a result, the organization was structured around self-directed and self-managed cross-functional work teams in which power derived from expertise and not position. A decentralized approach to management and high employee involvement in decision making was emphasized. Control was dispersed throughout the organization with emphasis on self-control and problem solving. Individuals used to take personal responsibility for work outcomes. They would monitor their own performance and seek corrective action when necessary. The main incentive of work was the work itself and not necessarily individual career progression. The firm was described as a collectivistic organization with strong emphasis on cooperation and collaboration. According to the respondents such an organization was very good in implementing new ideas. Employees were motivated to identify the relevant areas in which innovation was needed, to generate good ideas, to stimulate creativity and to implement best ideas.

Employees from both companies strongly believed that their approach would result in higher firm performance in the long run. While AC employees claimed that a tight hierarchy in such a large traditional organization like GC, coupled with top management's distance from the market, could easily result in a lack of flexibility to respond to changing market needs, GC employees questioned the idea that managers could effectively lead by monitoring without controlling. These differences in the desired level of hierarchy resulted in little formation of *interpersonal relationships* between the two corporations as illustrated by the following quotation:

> The organization of GC is a pyramid structure with a top-down way approach. Power is concentrated in the top of the pyramid and decisions flow from the top down. This means that one is supposed to do what the leader says. AC on the other hand has a loose hierarchy. Here it is more about what you know and whom you know. It is very important that organizational members connect with one another. This difference in the level of hierarchy has decreased our willingness to build network relationships with GC employees. We are not used to just follow orders but would like to analyse, critically discuss and evaluate joint decisions. (AC, CEO, Indonesia)

Therefore, I propose the following:

Proposition 6. Differences in the preferred levels of hierarchy (tight versus loose hierarchy) of two merging firms will negatively impact the formation of interpersonal relationships between their employees.

Task-oriented and employee-oriented

At GC, the focus of attention was on achieving efficiency in operations and getting the tasks done. Leaders were interested in completing assignments. They would define the roles of others, explain what to do and why, establish patterns of organization and determine how the tasks should be accomplished. They believed that this way they could best motivate the group members to work hard in order to achieve corporate goals. They strived towards fostering a culture of productivity in their units. The main focus was on the work being done and how to maintain successful operations. Some leaders preferred to keep their distance psychologically from their team members. As a result, they were perceived by AC employees as controlling and cold. Timely and successful task accomplishment was their number one priority and thus less emphasis was put on concern for people.

At AC close attention to the needs of employees for satisfying interpersonal relationships led to a friendly organizational climate and culture. The organization strongly believed that performance was only possible if a balance between the necessity of getting the job done and maintaining employee morale was achieved. Leaders trusted their employees and felt less need to control them. Opportunities for minority opinions to be expressed were provided and an acceptance of interdependence among group members was promoted. Employees felt that they were receiving social support from their supervisors.

These differences in task and employee orientation led to several critical incidents between AC and GC employees. Respondents from the GC argued that due to the heavy workload and tight deadlines they were often forced to be more task-oriented and less willing to devote too much time and energy to building *relationships*. They didn't take the personal concerns of the acquired employees very seriously. AC employees who rated relationships more than task accomplishments claimed that these organizational cultural differences were responsible for the lack of superior–subordinate relationships in the new entity.

Thus, I propose:

Proposition 7. Differences in task versus employee orientation between the acquirer and the acquired company will have a negative impact on interpersonal relationship building.

Socio-cultural integration processes and their impact on M&A outcomes

As described in the previous section I first focused on pre-acquisition cultural differences and the situation at the time of the takeover. Now I will pay attention to the dynamics of the socio-cultural integration process and their impact on M&A outcomes over time. The formation of interpersonal relationships, trust and shared identity were shown to have a significant impact on the level of cooperation, resistance, perceived stress and turnover rate. These outcome measures captured the degree of conflict at the socio-cultural level and were found to be critical indicators of M&A success and failure from the perspective of the employees.

Interpersonal relationships

Due to several critical incidents that emerged between AC and GC employees I could observe a lower level of interpersonal relationship building. A good example was reported by a CEO of AC who used to work in Mexico at the time when the merger was announced and first negotiation talks took place. He was told that the main reason for the merger was to create synergies and benefit from each others' core competencies. The GC stressed at that time that this was not supposed to be an acquisition and used the term merger instead to portray the aimed combination between two equals. However, spoken words didn't match observed behaviour. A come-together event was organized by the Austrian service provider, and GC members including their CEO were invited to attend so that they could get to know each other on a more personal level. The organizers strongly believed that joint socialization and shared experience could best facilitate lasting change in organizational values and processes. Their past experience has shown that the greater the number of shared experiences within a certain period of time is, the easier a shared understanding of individual needs and mutual adaptation can be achieved. Yet to their big surprise and despite the fact that all five GC members confirmed their participation, none of them joined the event. This created confusion and disappointment among the representatives of the Austrian corporation and resulted in low levels of interpersonal relationship building between the two parties.

The next critical incident emerged as the CEO of AC was asked to close his operations and sell the existing facilities within 15 days. AC had 450 m^2 of office space in the centre of Mexico City. Selling this property within such a short period of time was not advisable but it had to be done. Now it became clear to the Austrian representatives that this was not supposed to be a friendly merger of equals. They soon felt surrounded in an aura of conquest. High pressures were placed on them to comply with the expectations of the buying firm. AC members felt unappreciated by GC employees who believed that they could utilize the acquired firm's physical and human capital more efficiently. The closing of the operations didn't immediately result in dismissal of Austrian representatives. They were asked to send their CVs and were invited to attend interviews so that the acquirer could learn about their competences and find appropriate jobs for them in its Mexican subsidiary. The AC CEO asked to be sent to Austria where he was appointed as key country manager for former Yugoslav countries. He was originally from this region, spoke the language and was familiar with the mentality and working practices of its people. Back at home the situation only worsened. He was forced to surrender his familiar administrative practices, to negotiate decisions that he wanted to make and to look to the buying firm for approval. He felt that these actions served to diminish his perception of his relative standing and to make him feel dominated by and inferior to the acquiring employees. Yet he felt stronger and interpreted these actions as a lack of self-confidence of acquiring managers. The reported incidents further decreased the level of interpersonal relationship building and resulted in low cooperation with colleagues from GC. In addition, the CEO started showing individual opposition to the subsequent 'forced integration' of the joining firms by voice, absenteeism and disobedience.

> We decided to organize a come-together event and they agreed to join us ... What happened next, they didn't come. Nothing left. No apologies, no excuses. Then, I was asked to sell the facilities in Mexico. I told them that I couldn't sell the office space immediately ... They told us that we had 15 days left ... They behaved in a very insensitive and assertive manner. They tried to give us the feeling of inferiority. This is how they behaved in Mexico. Here in Vienna I had direct contact with younger managers. At that time I was still willing to help them so I gave them the information they needed ... They totally ignored me. Employee tensions soon exacerbated, interpersonal relationships worsened and we started resisting their attempt to conquer us. (AC, CEO, Mexico)

Thus, I propose:

Proposition 8. Harmed interpersonal relationships will result in low levels of cooperation and strong resistance on the part of the acquired employees.

Trust

The low level of trust in GC management was reported to be the main cause of perceived stress among AC employees. The announcement of the merger in autumn 2004 caused a tremendous turmoil in Austria. Being aware of this, GC management assured that it was supposed to be a friendly takeover between two strong players in the industry. At that time AC members still had great trust in GC. The GC was one of the three major global players in the energy and engineering sectors. Austrian employees saw this takeover as an opportunity to work for a global player. As soon as the initial confusion and unrest calmed down they became very excited about the future. However, the failure of GC to keep its promises diminished their excitement and as a result distrust and anxiety about the future prevailed again.

> We were first informed that GC was planning to take over AC in autumn 2004. There was tremendous turmoil. At that time we still believed that the takeover would not be accepted by the Austrian government. For two months we did not hear anything. Then we were told that AC will remain independent. A few months later it was then official. The integration started. At that time we still believed in what we were told. Together we are stronger! It was supposed to be a friendly merger ... But in reality what happened is that we were seen as a competitor and GC intention was to destroy us. That was our impression. We were treated as second class citizens. As a result we lost the trust in our government, in politicians, in GC employees. Our response to this was resistance .... (AC, Project Team Member)

Distrust in relational exchange strongly influenced interactions between the employees of the two firms and harmed any attempts to negotiate or derive common solutions. High levels of stress and resistance on both sides increased the conflict potential. Interpersonal and inter-organizational distrust were strongly related and emerged almost at the same time. As a consequence, the effects of distrust were mutually enforced at the two levels. These findings were supported by both groups of employees. Respondents from the GC admitted that they had initially focused too much on the portfolio, the organizational structures and processes. Less attention was paid to the employees.

> We were very much focused on organizational structures, processes and portfolios. The complexity of getting these parts integrated was extremely high. We had 170 legal entities that needed to be managed. The consequence was that we lost the employees. The communication broke down and it was obvious that we had made a mistake by being ignorant for their needs. (GC, Team member)

Distrust led to excessive stress and lack of cooperation on the part of acquired employees that was associated with a number of dysfunctional outcomes including absenteeism and reduced job performance. The failure of GC to deal with the human side of the integration and communicate its intentions to AC members left the acquired employees uncertain about their future and motivated them to seek other means to reduce their uncertainty such as reliance on rumours. These were not an effective means of reducing anxiety since they tended to focus on negative information. The importance of resistance was an additional dysfunctional individual outcome in the employees of the acquired firm. AC respondents coped with the low level of trust in GC by reducing their commitment and showing resistance. They used their energy either to cope with stress and confusion or to try to find new employment opportunities. The negative consequences didn't go away with time. Contrary to my expectations they became more serious as time passed. This finding was supported by both groups of respondents, those from GC as well as those from AC. Thus, I propose the following:

Proposition 9. Interpersonal distrust will increase the level of perceived stress and decrease cooperation resulting in high resistance on the part of the acquired employees.

Shared identity

As I started this research I assumed that pre-merger identities would be threatened from the beginning leading to negative inter-group relations in M&As. My expectation was that members from the acquired organization would experience higher threats to their pre-merger identity and thus demonstrate a stronger in-group bias. To my surprise the dynamics were quite different. As already described in the first section of the empirical findings, AC employees used to identify more with their type of job than with the organization. As the merger between the Austrian service provider and the GC was announced they showed the willingness to integrate into GC organizational culture. They were excited about the opportunity to work for such a well-established company. However, the situation changed due to the inability of the acquirer to manage expectations and deal effectively with the human aspects of the merger. In response to this AC employees suddenly started creating a shared identity among themselves. It was less the amount of change to its pre-merger culture that was seen as a threat but more the way this change was enforced. As their identity strengthened the in-group commitment and cooperation of AC members increased resulting in stronger inter-group polarization between the German and the Austrian company. In an attempt to secure self-esteem, access to rare resources (e.g., information) and to maintain their distinctiveness the in-group identities of the acquired employees became more salient. In addition, they started questioning their past identity: 'Who are we? Who are we going to be in the new organization? Who do we want to be?' AC employees began to judge themselves more positively in terms of competence, creativity and success. At the same time this decreased the perceived value of GC as the out-group. This process can be very well illustrated by the following two quotations:

> I don't think that we had a strong corporate identity before the merger. We have developed a common spirit after the takeover as response to the humiliating integration strategies of GC. (AC, Member of the Board of Directors)

> One year after the takeover you could see that there was the AC and the GC group ... Two years later GC employees started asking themselves what went wrong. There was no common identity but two distinctive in-group identities forced to live under one roof. (AC, Team member)

As a consequence, AC employees started leaving GC in 2006. The voluntary turnover rate reached its peak in 2008 as 10 to 15 members from the Austrian service provider began to quit their jobs and move to competitors every week. Those who were highly qualified left first. Once they got to know the corporate philosophy of GC, its strategic orientation and long-term aims and objectives, they decided to join its main competitors and transfer their valuable knowledge and expertise. Those who had difficulties finding new jobs stayed, including older employees aged 58 and above who didn't have a choice but to continue working for GC in hope that they could retire soon. According to the respondents around 68% of AC employees in the HQ left the GC during the first six years after the takeover.

> And this is when they started leaving. It was 2006. The turnover rate reached its peak in 2008. 10 to 15 employees would leave every week. Those who were capable of finding a new job somewhere else left. Less qualified and more senior people stayed. (GC, Team member)

Therefore, I propose the following:

Proposition 10. An increase in the salience of shared identity will lead to a stronger inter-group polarization between the merging firms and result in higher voluntary turnover.

Concluding discussion

National and organizational cultural differences have often been cited as a key reason for the high failure rate of domestic and cross-border M&As in the management literature (Krug and Nigh 2001; King et al. 2004). However, empirical research has not been conclusive in demonstrating the direction of the impact of these differences on M&A dynamics (Teerikangas and Very 2006; Stahl and Voigt 2008; Vaara et al. 2010). Consequently, the purpose of this study has been to provide a more comprehensive explanation of cross-border M&A outcomes. I demonstrate that the causality between national and organizational cultural differences and M&A outcomes has a higher degree of complexity than previous studies were able to show. In this study I focus on how cultural differences affect integration processes, and what other factors facilitate or hinder successful socio-cultural integration in M&As. This way I respond to the call by several authors (Stahl and Voigt 2005, 2008; Teerikangas and Very 2006; Vaara et al. 2010) who have stressed the need to 'open the black box' of socio-cultural integration in order to understand how these processes may contribute to the success or failure of M&As.

With the aim to explore this complexity in more detail I conducted a longitudinal study of a merger between a leading Austrian service provider and a GC. Participant observations and 71 interviews with acquired and acquiring employees were conducted at four different points of time. Based on the empirical findings I then developed a model of M&A socio-cultural integration processes and their outcomes.

In this study I stress the importance of two concepts in explaining M&A outcomes: national and organizational cultural differences as the main effect, and socio-cultural integration processes as the mediating variable. Based on the empirical findings I show that specific national and organizational cultural categories have a significant impact on specific socio-cultural integration processes such as the creation of interpersonal relationships, trust and shared identity. The formation of interpersonal relationships, trust and shared identity in turn has an influence on the levels of cooperation, resistance, perceived stress and the turnover rate. These dynamics and their consequences are illustrated in Figure 2:

This study provides new insights into the performance implications of cultural differences in M&As. First, I show that organizational cultural differences are more central to M&A outcomes than national cultural differences. More specifically, I argue that differences in organizational values and norms tend to be strongly associated with in-group versus out-group biases. National cultural differences also play an important role in cross-border M&As but they are likely to be less central. Previous research supports this

Figure 2. A model of socio-cultural integration processes in the context of cross-border M&As.

argument. Weber (1996) found that in cross-border acquisitions national cultural differences were positively associated with attitudinal and behavioural outcomes, whereas in domestic acquisitions, differences in organizational culture were negatively associated with employee commitment, attitudes towards the merger and the level of cooperation between employees of the merged firms. Very, Lubatkin, Calori, and Veiga (1997) found that cross-border acquisitions were associated with lower levels of cultural difficulties than domestic acquisitions, while Larsson and Risberg (1998) reported a higher number of cultural clashes in domestic than in international acquisitions. Recently, Stahl and Voigt (2008) revealed that national cultural differences are more positively related with socio-cultural integration outcomes than organizational cultural differences. This argument has also been supported by Vaara et al. (2010) who argue that organizational cultural differences can be seen as root causes of social conflict, while national cultural differences are negatively associated with conflict. This is explained by the fact that organizational cultural differences are the key social identity category in cross-border M&As whereas national cultural differences are less central.

Second, I demonstrate that socio-cultural integration which captures the less tangible cultural, organizational and human resources implications of M&A has a mediating impact on the relationship between national and organizational cultural differences and M&A outcomes. More specifically, I show how the overall pattern of connections between employees of the combined firms (interpersonal relationships), the kind of personal relationship people develop with each other (trust) and shared interpretations and systems of meaning among parties (shared identity) are influenced by cultural differences and how they in turn impact M&A outcomes. Eight years ago, King et al. (2004) found that none of the most commonly studied antecedent variables were significant in predicting acquisition performance, while four years later Stahl and Voigt (2008) reported that socio-cultural integration processes are the missing link in our understanding of the performance implications of cultural differences in M&As. Given that existing empirical research has failed to identify the factors that affect M&A performance, it has been argued that even small effect sizes are theoretically and practically meaningful (Stahl and Voigt 2008). My empirical findings illustrate that the cause–effect relation between culture and M&A outcomes is far more complex than has been previously acknowledged and studied. The contribution lies in assessing the simultaneous influence of the formation of interpersonal relationships, trust and shared identity on M&A outcomes. In addition, I demonstrate the interrelatedness and combined importance of social capital theory and socio-cultural integration dynamics in the context of cross-border M&As. The findings suggest that decisions and interventions must be based on a careful understanding of the social realities of two merging firms. Structural, relational and cognitive dimensions of social capital impact the stability and connections that allow organizations to hold together.

Third, by obtaining data at multiple points in time and incorporating a longitudinal perspective into the study I have responded to the call of several authors (Duncan and Eero 2005; Yu, Engleman, and Van de Van 2005). I was able to show that M&A dynamics are not a continuous linear progression over time. Instead, critical incidents are specific events that can have a disruptive impact on M&A outcomes. I consider the extensive database to be the strength of this qualitative study that allowed me to explore in depth the causes of negative M&A outcomes.

Finally, my study has also implications for international human resource management (IHRM). The qualitative data shows that attention to people and cultural issues is one of the most critical factors in making cross-border acquisitions work. The analysis of pre-merger cultural issues has value in predicting post-merger integration outcomes. Yet pre-merger cultural differences are not the main indicator of the emerging dynamics. Far more important are significant occurrences or critical incidents that are the result of cross-cultural interactions and the way they are managed. They can harm or facilitate socio-cultural integration processes. These processes in turn have a mediating impact on M&A outcomes and if not managed effectively may undermine the realization of synergies. Therefore, IHRM should pay close attention to the challenges associated with M&A dynamics at all stages in the acquisition process. Only by being excessively cautious in studying, analysing and assessing the cultures and observing the quality of cross-cultural interactions IHRM professionals can facilitate effective socio-cultural integration.

In terms of limitations, I should mention the following: First, I rely on a single case study analysis. Multiple in-depth case studies give a stronger base for theory building (Yin 1994), since propositions derived from several cases are more deeply grounded in varied empirical evidence (Eisenhardt 1991). Second, this is a study of a merger between an Austrian and a German company. According to the findings from the GLOBE study (House, Hanges, Javidan, Dorfman, and Gupta 2004), Austria and Germany belong to the Germanic cluster and thus are characterized by similar societal values and practices. By using a similar research design and looking at the processes of integration between firms from different cultural clusters, future research could provide new insights into the dynamics of M&A socio-cultural integration processes. Finally, I would like to mention once more that the purpose of this study was to generate and not to test theory, which is why I chose a qualitative research design. In an attempt to reconcile the conflicting findings in the literature, I have developed a set of propositions regarding mechanisms by which cultural differences may influence M&A outcomes. At the next stage I would like to see the generation of quantitative data to test my assumptions and the model.

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