Culture clashes in cross-border mergers and acquisitions: A case study of Sweden's Volvo and South Korea's Samsung☆

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ABSTRACT

This study investigates the way in which employees from acquiring and acquired firms experience cultural differences during post-acquisition integration. We examined Volvo Construction Equipment's acquisition of Samsung Heavy Industry's division of construction equipment. Two ontologically bipolar conceptualizations of culture – the classic and social constructivist concept of culture – are discussed. Semi-structured interviews were conducted at Volvo Construction Equipment Korea twice over an 11-year interval, in 2001 and 2012, respectively. The results suggest that while the classic concept of culture correctly predicts what kinds of culture-dependent problems may occur during post-acquisition integration, the social constructivist concept of culture can better predict whether or not these problems may occur.

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1. Introduction

Although international mergers and acquisitions (M&A) have long been used by multinational enterprises (MNEs) to quickly expand abroad or penetrate new foreign markets, previous studies have generally noted disappointing M&A outcomes. For example, Schoenberg (2006) and Bruner (2004) suggest that 50–80% of all M&A transactions fail in both *exante* (e.g., cumulative abnormal returns) and *expost* (e.g., increases in revenues or net profits) financial terms. Scholars often attempt to explain the high failure rate from either a strategic or financial perspective. However, since the beginning of the 1980s, they have begun to pay close attention to "softer" issues, such as increased anxiety, stress and local employees' negative attitudes toward M&A (refer to Cartwright & Cooper, 1993a, 1993b, 1996; also see Sinkovics, Zagelmeyer, & Kusstatscher, 2011). This line of research has been followed by a number of cultural studies examining whether either national or organizational cultural differences between acquiring and acquired firms lead to dysfunctional outcomes.

However, the results from these studies on cultural impacts remain inconclusive (see Stahl & Voigt, 2005; Teerikangas & Very, 2006 for extensive literature reviews). In the same vein, it is interesting to note that a large number of extant studies concluded national cultural differences in cross-border M&As (CMA) may have positive effects, while organizational cultural differences in domestic M&As (DMA) are largely negative (Larsson & Lubatkin, 2001; Larsson & Risberg, 1998; Morosini, Shane, & Singh, 1998). The results are clearly contradictory to the common understanding that national cultural differences often reflect profound differences in basic values and thus may cause more severe culture clashes in CMA than organizational cultural differences do in DMA. One of the possible explanations is that acquiring firms tend to be more culturally sensitive in post-acquisition integration in CMA than DMA, because national cultural differences are quite often more salient than organizational cultural differences (Stahl & Voigt, 2005).

The explanation above clearly presumes that national cultural differences in CMA can be successfully managed in cases where the correct post-acquisition strategies are properly implemented. However, a problem is that we still do not know exactly how this can be done effectively. Indeed, findings from previous studies examining post-acquisition integration processes are not robust either, and thus do not provide us with an adequate answer to this question. For example, some researchers have argued that it is desirable for acquiring firms to keep levels of integration low and grant a considerable degree of autonomy to acquired firms to avoid potential culture clashes and boost M&A performance when national cultural distance is relatively large (Slangen, 2006). On the contrary, other researchers have also argued that social control, which stresses cooperation between acquiring and acquired employees, may greatly help acquiring firms achieve a successful acculturation (e.g., Larsson & Lubatkin, 2001).

The discussion so far suggests that we need to better understand the effects of national cultural differences in the context of CMA. In this sense, we strongly argue that studies looking deeply into how national cultural differences are actually experienced in real life among acquiring and acquired employees during the course of post-acquisition integration are needed more than the kinds of studies examining the "fit" between the degree of differences in national cultures and post-acquisition strategies. In this way, we can possibly obtain a better understanding of why national cultural differences can be either beneficial or detrimental to the success of CMA.

In recognition of this, we have examined Volvo Construction Equipment's acquisition of Samsung Heavy Industry's division of construction equipment twice over an 11-year interval in 2001 and 2012. This paper is also expected to fill a significant research gap in that it investigates a single M&A transaction reflecting stark national cultural differences – namely, Sweden and South Korea – longitudinally, in a qualitative manner, whereas previous studies were typically cross-sectional and examined M&A transactions only within Western countries (e.g., Apfelthaler, Muller, & Rehder, 2002; Aw & Chatterjee, 2004; Slangen, 2006, among others).

2. Theoretical background and conceptual framework

Prior studies examining the human and psychological aspects of M&A from a cultural perspective can be roughly divided into two broad categories. These two groups of studies have been conducted separately in different scholarly domains. The studies in the first category, which we call the 'value conflict' approach, treat national and/or organizational cultural differences as an independent variable and examine its relationship with a variety of dependent variables such as M&A performance (e.g., cumulative abnormal returns or return on equity), knowledge transfer and/or social-cultural integration outcomes (e.g., employee resistance or acculturative stress). Here, cultural differences are often measured as the sum of differences in value orientations between acquiring and acquired firms, e.g., cultural distance. These studies usually – but not always – assume that post-acquisition integration efforts are likely to fare poorly when acquiring and acquired firms have significantly different value orientations (cultural incompatibility). Many of these studies have also paid close attention to the moderating effects of post-acquisition integration factors (e.g., autonomy removal, level of integration, or speed of integration) on the relationship discussed above. The majority of M&A studies in the field of international business and strategy can be classified into this category.

The studies in the second category, however, which we call the "identity conflict" approach, view the same human and psychological aspects of M&A from a completely different angle. They do not use the term 'culture' explicitly in their studies. Rather, based on social identity theory, they assume that conflict and strife between acquiring and acquired employees breaks out during post-acquisition integration processes, not because they have significantly different value priorities but because acquired employees refuse to accept a new group identity and still identify themselves as members of the acquired firms even after the acquisitions. These studies often treat post-merger identification – the degree to which acquiring and/or acquired employees identify themselves as members of either a new or an old group after acquisitions – as a dependent variable, and try to figure out its determinants, usually from among a variety of social and situational factors associated with M&A, e.g., pre-merger identification, pre-merger status, the sense of continuity of identity, or permeability of group boundaries. It is also interesting to note that while the majority of studies in the first category often collect data and conduct analyses at the organizational level, the studies in the second category, on the contrary, are at the individual level. Most M&A studies in the field of social psychology can be neatly placed here.

Based on the discussions above, one may argue that these two approaches differ significantly from each other in both the theoretical and methodological senses as they deal with fundamentally different socio-cultural aspects of M&A. However, they are not mutually exclusive but rather complementary in nature, and thus can be successfully integrated into a frame of culture theories in order to gain deeper knowledge of the effects of national cultural differences in the context of CMA. To do so, we first introduce the two different concepts of culture, namely the classic and social constructivist concepts of culture, in the following sections (Gertsen, Søderberg, & Torp, 1998) (the fundamental necessities to discuss the two concepts are also given below). After that, we further deliberate on how these two concepts of culture can be meaningfully integrated.

2.1. The classic concept of culture[1] – a received view

The theoretical basis of the "value conflict" approach ultimately rests on the classic concept of culture developed by early anthropological studies which stressed the functions of culture (see Chapman, 1996; Martin, Frost, & O'Neill, 2004 for a review of the development of culture concept in organization studies). The central idea behind the classic concept of culture is that culture is an objective reality that exists "out there" in subconscious forms of basic assumptions and conscious values and norms collectively shared by a group of people (Schein, 1991). Because culture is regarded as an empirical category that is objectively identifiable, if properly observed, one can discover its core (often referred to as basic assumptions). Thus, culture is seen as being measurable. In comparative management and organizational culture research, this core is often identified by measuring the so-called "cultural dimensions" (e.g., Power Distance), which basically represent how people of different cultures respond to various fundamental dilemmas that all societies face, although in different ways (e.g., taking inequalities for granted or stressing equality) (e.g., Kluckhohn & Strodbeck, 1961).

Culture is also considered something that does not easily change, and even if it does, it does so very slowly over a long period of time, as it is subconsciously imprinted on our minds as a desirable way to think and behave (Hofstede, 1991). It means that our values – the basic ideas about what is good/evil, safe/dangerous, normal/abnormal, rational/irrational, moral/immoral, and so on – are largely formed by our own culture, and are simply taken for granted without questioning their "true" objectivity. Since these values ultimately determine how we are going to perceive the world we live in and what kinds of meanings we are likely to attach to our experiences, virtually no one can be completely removed from the influence of his or her own culture. As Hofstede points out, culture can thus be seen as "mental programs" or "software of the mind" in that we are "programmed" by our own culture to think and act in a certain way. A large amount of previous research, in a variety of scholarly domains, has supported this idea. For example, it has been extensively documented in the field of cross-cultural management studies that the "best" managerial practice in one culture may not work at all in another culture. Also, there is a significant body of evidence indicating that people from different cultures are motivated by different needs, make decisions in different manners, and appraise different leadership styles as being effective.

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[1] It is also referred to as "the functionalist anthropological concept of culture" in Schein (1991), "the essentialist conception of culture" in Gertsen, Søderberg, and Vaara (2000), and "the integration view" in Martin et al. (2004).