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M&A and innovation: The role of integration and cultural differences—A central European targets perspective

Florian Bauer [a,*], Kurt Matzler [b], Stefan Wolf [c]

[a] Department of Management & Law, MCI Management Center Innsbruck, 6020 Innsbruck, Austria
[b] Department of Strategic Management, Marketing and Tourism, University of Innsbruck, 6020 Innsbruck, Austria
[c] University of Innsbruck, 6020 Innsbruck, Austria

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ABSTRACT

Cultural differences are an important issue for cross-border M&A. Empirical evidence for the impact of cultural differences on M&A performance is mixed. A major reason for these inconclusive results relies on integration. One main motive for cross-border transactions is the acquisition of innovative capabilities. In a study of innovation-driven M&A in the German-speaking part of Europe, we find different effects of human and task integration on the innovation outcome after the transaction. While human integration (i.e., the creation of a shared identity and satisfaction among the employees from both organizations) is rather destructive, task integration (i.e., the transfer and sharing of resources and capabilities) is beneficial for innovation output. Furthermore, the integration-innovation performance relationship is moderated by national cultural differences. While national cultural differences have a downward curvilinear slope moderating the effect of human integration to innovation, we find a clear inverted U-shaped slope moderating the effect for task integration. Both effects indicate that cultural similarity is more beneficial in the case of innovation-driven M&A with targets in Central Europe.

1. Introduction

Mergers and Acquisitions (henceforth: M&A) are a popular research topic. The global transaction volume which equals the GDP of economies like Brazil (in 2013 $ 2.24 trillion) emphasizes its significance for managerial practice. Even though domestic transactions still play a major role, the number of cross-border M&A has increased during the last two decades (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). M&A offer firms the opportunity to develop new markets or to seek for the transfer of technology and innovation to keep pace with the globalization of business (Hitt, Franklin, & Zhu, 2006). Even though cross-border deals have played a role in the market for corporate control since the fourth merger wave, a significant increase in terms of numbers and volume of cross-border transactions can be observed since the 2000s. Cross-border M&A differ from domestic M&A, as buyer and target firms are embedded in different cultural environments. Despite the great practical importance of cross-border M&A, there is only little academic knowledge and understanding of the phenomenon (Shimizu et al., 2004). Past research has shown that national culture is an important factor for the success or failure of cross-border M&A (Weber, 1996; Teerikangas & Very, 2006; Stahl & Voigt, 2008). The interaction and management of two different national cultures is a major challenge and a common reason for failure (Björkman, Stahl, & Vaara, 2007). National cultures are relevant for merger integration, processes, and outcomes (Weber, 1996; Stahl & Voigt, 2008). Differences in national cultures can have positive effects (e.g., learning of new routines, knowledge transfer) or negative effects (e.g., distrust, conflicts). Clashes between two cultures due to different values and practices can lead to a lack of collaboration and understanding (Nahavandi & Malekzadeh, 1988; Cartwright & Cooper, 1996), causing the negative performance of cross-border M&A. However, empirical studies concerning cultural differences provide mixed results (Weber, 1996; Morosini, Shane, & Singh, 1998).

Despite the increasing research attention on M&A in general and cross-border transactions in particular, there is still an observable gap between academic understanding of the value creating or destroying conditions and the practical importance of M&A (Ellis, Reus, & Lamont, 2009). Due to the constantly low success rates of about 40–60 percent (Homburg & Bucerius, 2006), it must be stated that the key determinants of post-acquisition performance still remain unclear (Weber, Tarba, & Reichel, 2011a;

* Corresponding author. Tel.: +43 512 20703634.
E-mail addresses: Florian.bauer@mci.edu (F. Bauer), Kurt.matzler@uibk.ac.at (K. Matzler), Wolfstefan86@gmail.com (S. Wolf).

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King, Dalton, Daily, & Covin, 2004). Current reviews conclude that the commonly analyzed variables fail in explaining post-merger performance and that unidentified variables and interactions caused by the fragmentation of research (Stahl & Voigt, 2008) could help us in developing a better understanding of the phenomenon (King et al., 2004). With the following literature review, we want to draw attention to three major problem fields in current research.

2. Literature review and contribution

An emerging and growing field of research has investigated the cultural dynamics of M&A. The literature has tried to explain the success or failure of M&A in terms of cultural fit (Weber, 1996), cultural distance (Morosini et al., 1998; Slangen, 2006; Reus & Lamont, 2009; Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009), and cultural similarities (Very, Lubatkin, Calori, & Veiga, 1997; Oudenhoven & Zee, 2002). The cultural fit, distance, or similarities hypotheses suggest that international cultural contact is associated with risks, difficulties, and costs (Hofstede, 2001). Coordination and communication between the merging entities becomes more challenging, and thus, the effort and costs of integration increase with escalating differences between the involved cultures (Kogut & Singh, 1988). As the employees of the merging entities are embedded in their national cultures, cross-border M&A lead to misunderstandings in decision-making and difficulties during the implementation phase. Interactions between the merging entities become problematic (Olie, 1994). However, national cultural differences can also have positive effects. Routines, resources and capabilities can be transferred and redeployed (Morosini et al., 1998; Capron & Hulland, 1999), leading to the realization of synergies (Larsson & Risberg, 1998).

Empirical research provides us with mixed evidence, providing evidence for negative (Datta & Puia, 1995; Slangen, 2006) and positive relationships between cultural differences and the M&A outcome (e.g., Morosini et al., 1998; Capron & Hulland, 1999). Numerous researchers point to inconclusive and often contradictory results and call for further research (Schoenberg, 2000; Teerikangas & Very, 2006; Child, Faulkner, & Pitkethly, 2000; Slangen, 2006; Jemison & Sitkin, 1986).

One major reason for these inconclusive findings may be attributed to the fact that national cultural differences affect in different ways various stages of the M&A process, from target screening, due diligence and negotiation practices to integration (Slangen, 2006). Even though cultural differences affect the whole process, they become most obvious during the integration phase. Cultural effects occur when people interact, and most interactions of employees occur in the post-merger integration phase. Hence, it is this phase of M&A when cultural collisions or a beneficial transfer, interaction, and redeployment effect appears (Slangen, 2006; Jemison & Sitkin, 1986). Most studies on cultural differences argue for a direct effect of cultural differences on the M&A outcome (Capron & Guillen, 2009), while only a few conceptual papers and empirical studies investigate the interplay of integration and national cultural differences (e.g., Slangen, 2006; Morosini et al., 1998; Child et al., 2000; Weber et al., 2011a; Weber, Rachman-Moore, & Tarba, 2011b).

Consequently, it can be argued that the integration strategy plays an important role (Teerikangas & Very, 2006; Gomes, Angwin, Weber, & Tarba, 2013), and managing and integrating different cultures is a central issue (Grotenhuis, 2001). It has been found that national cultural attitudes are essential for integration and the outcome of a transaction (Weber, 1996; Weber et al., 2011a). Morosine and colleagues state that national cultural distance affects the post-acquisition strategy (Morosini et al., 1998), while Schweiger and Goulet (2005) found that cultural distance can be bridged in the early phase of integration. Stahl and Voigt (2008) found in their meta-analysis of 46 studies that cultural differences negatively influence sociocultural integration.

To summarize, there is a lack of understanding about how different integration actions and approaches influence M&A outcomes (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009), and there is a call for further research on the relationship between cultural differences and integration (Weber, Tarba, & Reichel, 2009). In a recent paper, Weber et al. (2011a) present a theoretical model of how specific cultural traits are related to different integration approaches.Even though integration activities are usually cited to be necessary and essential for the M&A outcome (Cording, Christmann, & King, 2008), the value-creating mechanisms of M&A still remain unclear (King et al., 2004). Against the common agreement that at least a certain level of integration is beneficial, some researchers argue for autonomy. In a seminal paper, Datta and Grant (1990) investigated the relationship of integration and autonomy and their effects on success; they found empirical evidence that autonomy is beneficial in unrelated acquisitions but not significantly in related ones. Howell developed a framework existing of three types of acquisition strategies, namely financial, marketing, and manufacturing, each with different requirements according to integration (Howell, 1970). Christensen, Alton, Rising, and Waldeck (2011) argue that the beneficial effects of integration vary with the underlying motive of the acquisition. If the main motive for the acquisition is boosting the existing business model, quick and deep integration is beneficial, while in the case of reinventing business models, integration destroys value (Christensen et al., 2011).

Next, regarding the main motive of cross-border M&A – i.e. access to new markets – the acquisition of technology and know-how became more important in the last decades (Bertrand & Zuniga, 2006; Cassiman, Colombo, Garrone, & Veugelers, 2005; Makri, Hitt, & Lane, 2010; Grimpe & Hussinger, 2013), and M&A can be seen as a vehicle to broaden the knowledge-base of a firm (Björkman et al., 2007; Vermeulen & Barkema, 2001). International technological companies in particular are seeking knowledge transfer through M&A (Bresman, Birkinshaw, & Nobel, 2010). With the acquisition of external knowledge bases and resources (Chakrabarti, Hauschildt, & Süverkrüp, 1994; Gerpott, 1995), firms try to improve their innovation output (Ahuja & Katila, 2001; Cloodt, Hagedoorn, & Kranenburg, 2006). Acquisitions offer firms the possibility to foster innovation and allow access to external knowledge, which is more difficult and slower to generate internally (Prabhu, Chandy, & Ellis, 2005). Even though the link of R&D and M&A is important, it is not well researched (Cassiman et al., 2005).

To leverage the innovation potential of an acquistion, a certain degree of knowledge transfer is necessary (Bresman et al., 2010), and the combination and interaction of complementary resources facilitate innovation success (King, Covin, & Hegarty, 2003). However, it is also argued that the integration of knowledge bases is disruptive and destroys innovation performance (Cloodt et al., 2006). Paruchuri, Nerkar and Hambrick (2006) found empirical evidence that integration leads to productivity losses of corporate scientists in terms of patents. Puranam and his colleagues investigated the role of structural integration and found that integration is not always necessary and beneficial (Puranam, Singh, & Chaudhuri, 2009).

The results of empirical studies on the impact of M&A on innovation vary (Ahuja & Katila, 2001; Ernst & Vitt, 2000), and the investigated relationships between M&A and innovation processes are inconsistent and hard to generalize (Cassiman & Ueda, 2006; Cassiman et al., 2005; Hitt, Hoskisson, & Ireland, 1990; Paruchuri et al., 2006). A major reason for these diverging results might be found in integration, as different types of acquisitions (e.g., the acquisition of market access and knowledge) require different