



Not All Differences Are the Same: Dual Roles of Status and Cultural Distance in Sociocultural Integration in Cross-border M&As[☆]



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ABSTRACT

Despite, or perhaps due to, its central role in international business research, cultural distance is a widely debated and criticized construct. In this paper, I will examine the conditions under which two specific assumptions regarding the cultural distance construct (viz., symmetry and discordance) can get illusory and misleading. Understanding the reasons behind the (in) admissibility of these assumptions is especially important to guide future cross-cultural research to take necessary steps towards conceptual and methodological adjustments and remedies. Towards that end, I introduce the idea of status heterogeneities between social actors who interact in a multicultural context, and how these heterogeneities can mold the mutual perceptions and attitudes between individuals. As the primary means with which firms internationalize, cross-border mergers and acquisitions are used as the context within which dual roles and implications of status and cultural distance are theorized. Auxiliary insights provided by status theories can explain why and when assumptions of symmetry and discordance could be wrong and misleading. Furthermore, incorporating status into the extant literature can reconcile inconsistent empirical results and help future research avoid under-specified models that do not account for systematic biases in their sample sets.

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1. Introduction

International Business (IB) research is intrinsically interdisciplinary in nature, and it is this characteristic that makes it an interesting and dynamic field of inquiry. Perhaps one of the issues uniquely germane and indigenous to the nature and scope of IB research is the multitude of cultural contexts within which multinational corporations (MNCs) operate, leading to some unique challenges and opportunities. Effectively benefitting from advances in cross-cultural psychology and anthropology, on the theoretical front, and from the compilation and refinement of large-scale/multi-country datasets (i.e., Hofstede, 1980) and development of index measures (i.e., Dow and Karunaratna, 2006; Kogut and Singh, 1988), on the methodological and empirical front, IB scholars have been thoroughly examining the role of culture and cultural distance for the last two decades or so. The wide array of research areas in which cultural distance is studied as key contingency factor ranges, *inter alia*, from the mode of entry choice to the success of inter-organizational collaborations and from the design and transfer of human resource management practices to work-related attitudes (for meticulous review of relevant literature see Kirkman et al., 2006).

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Yet, if the use of cultural distance is one common element in majority of incumbent IB research, the lack of consensus on the direction of its effects on different kinds of dependent variables is yet another one. Despite their convenience, face validity, intuitive appeal and the ease of use; the conceptual and methodological properties of the index-based measures of cultural distance have been identified as a possible culprit for the aforementioned ambiguity over the net effects of this key construct. In one of the most astute and acclaimed critical appraisals of standard approaches to the issue of cultural distance, Shenkar (2001) aptly underscores the downsides of conceptualizing cultural distance as a linear, fixed and symmetrical variable that creates additional challenges and problems proportional to its magnitude.

In this paper, my ambition is to focus on two of these illusions standard measures of cultural distance are liable to. Motivated by the curiosity to understand (1) why assumptions of *symmetry* and *discordance* may not always hold true and could be illusionary, and (2) the reasons behind the ambiguous results of empirical M&A literature, my starting point is first to unveil the mechanisms with which cultural differences have been theorized to have a bearing on the sociocultural dynamics in cross-border M&A. My inquiry into the conceptual roots of the question, which I shall briefly elaborate further below, leads to the conclusion that the use of cultural distance to understand social integration in M&As (or any comparable relational phenomenon taking place in a multicultural context for that matter) needs some kind of a *theoretical calibration* to decipher the net effect of cultural differences in the integration process. Specifically, I shall make the case that interpersonal dynamics and the resulting patterns of integration in M&As are influenced and molded by not only culture but also other auxiliary dimensions that could characterize and define merging organizations with respect to each other. One such dimension, which I will bring up in this study, is *status heterogeneities*. As I shall argue in detail throughout Section 3, accounting for the complementary dimension of relative status positions of merging organizations could shed light on why inconsistent results were reported in previous studies and how these inconsistencies can be straightened out in future research.

In this vein, the present study shall be considered an extension of the recent stream of literature that share the same ambition of increasing the rigor and diligence of cultural distance construct (Tung and Verbeke, 2010; Zaheer et al., 2012) as well as a complement to the expanding stream of research that aims for a better understanding of the role of culture in sociocultural integration in cross-border M&As (Stahl and Voigt, 2008; Weber et al., 2009). Positioned within this frame of reference and thinking, the intended contributions are threefold. First, I argue that leveraging insights gained from social-psychology to examine the dual roles of cultural differences and relative status positions has the promise of advancing the conceptual rigor of cross-cultural management and international business literatures (Drogendijk and Holm, 2012; Drogendijk and Zander, 2010). To that end, I will scrutinize the assumptions of *symmetry* and *discordance* and examine the conditions under which cultural distance could yield asymmetrical and/or positive impact on the parties involved in a multicultural phenomenon (Shenkar, 2001). By providing theoretically founded explanation(s) as to *why* cultural distance can have asymmetric effects and *why* increased cultural distance between two entities can at times ignite more attraction than aversion among the interacting parties, I aim to address the prevailing inconsistencies regarding the effect of cultural distance on a range of dependent variables.

Second, incorporating *individual-level* status perceptions and their effects can help improve extant conceptualizations and operationalizations of psychic distance construct. As aptly pointed out by Håkanson and Ambos (2010), IB research lacks an adequate understanding of antecedent variables that add up to psychic distance. This contention is perfectly in line with the intuition behind introducing status dimension into the picture, which can function as an overarching theoretical concept that can systematically explain the subjective/evaluative rank ordering of one's own position with respect to others. Hence, systematic investigation of status differences, the initial steps of which I take in this article, can be particularly valuable and useful to decipher the affective and attitudinal factors that play key role on the formation of psychic distance perceptions at the individual level of analysis.

Third, in this study I will develop theoretical cases in which dual roles of culture and status are simultaneously at play. As I shall elaborate further in Section 4, accounting for the auxiliary dimension of status can help identify situations in which one party could be located in remarkably different positions vis-à-vis the other without necessarily altering the nominal cultural distance between the two ends of the dyad. Thus, the theoretical calibration I hereby propose could provide a basis for a more precise and fine-tuned examination of the antecedents of sociocultural integration in M&As, and other cross-cultural relational phenomena, which can contribute future empirical research by controlling for potential bias in their sampling frames and/or avoiding under-specification and over-aggregation problems in their models.

Even though I have made explicit reference to the performance of cross-border M&As several times in the preceding discussion, I shall note that any explicit conclusion regarding performance, financial or otherwise, will be avoided in my subsequent treatise. This is primarily because the theories I am building on do not warrant such normative implications. Thus, for the sake of remaining true to my theories, I will keep the performance related outcomes outside the immediate scope of the present study. With these aims and delimitations in mind, in Section 2 I shall outline the basic premises of the cultural distance hypothesis as applied in M&A research, along with the theoretical foundations upon which the main arguments of this research stream are built. This will be followed by Section 3 where I introduce the status dimension and its postulated roles in sociocultural integration in cross-border M&As. Based on this, in Section 4, I will present eight archetypal cases where similarity and status dimensions interact in different combinations, and create different patterns of interaction between merging firms. In Section 5, I will present a general discussion and conclude with implications for future research.

2. Cultural distance and its implications in M&As

Amid different areas in which culture occupies a central role, the present investigation will be primarily focused on cross-border mergers and acquisitions (M&As) and how cultural differences between the acquirers and targets affect the vigor and

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