

## The Cultural Integration in the Process of Cross-border Mergers and Acquisitions

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**[Abstract]** Cross-border mergers and acquisitions (M&A) play an important part in foreign direct investment (FDI). In the process of cross-border M&A, the enterprises involved will encounter cultural differences and conflicts. How to integrate these cultural differences and eliminate the conflicts becomes an important issue for the enterprises. This paper discusses the necessity of carrying out cultural integration in the process of cross-border M&A. This paper also indicates that cross-cultural management is a feasible and practical way for cultural integration. Moreover, the four patterns of cross-cultural management are discussed in this paper.

**[Keyword]** Cross-border mergers & acquisitions; cultural integration; cross-cultural management; cultural difference

### Introduction

Cross-border mergers and acquisitions have become more and more active in the international economy. M&A enterprises have to confront the different cultures during the process of integrating their operations. How to integrate these different cultures becomes a crucial subject for enterprises to research.

### Literature Review

Company culture is very important, for it correlates to a company's strategy and employees' performance (O'Reilly, 1989). With the fast development of cross-border M&A and other kinds of foreign direct investment (FDI) (*Note: Global FDI inflows rose modestly in 2004 following large declines in their value in 2001(41%), 2002 (13%) and 2003 (12%). (UNCTAD: World Investment Report 2005: Transnational Corporations and the Internationalization of R&D)*), cross-cultural management becomes a key role in management process because of cultural differences and conflicts. More and more enterprises pay much attention to these differences and conflicts (Wang & Jiang, 1998). As a result of research, the concept of cultural integration of M&A was put forward (Gu & Xue, 2004). Some companies benefit from cultural integration in cross-border M&A, such as GE (Ni & Wang, 1999; Xu, Wang & jin, 2000; Jiao & Yang, 2002). Therefore, it is necessary to understand the mechanism of cultural integration of cross-border M&A.

In this paper, three major questions need to be answered. First, what is the meaning of cultural integration of cross-border M&A? Second, what content should be contained? Third, how is the cultural integration achieved?

### Meaning of Cultural Integration of Cross-Border M&A

Cross-border M&A is defined as an activity in which an enterprise from one country buys the

whole asset or controlling percentage of an enterprise in another country (Zhang & Wang, 2004). When the cross-border M&A happens, it becomes the prime task for the enterprise to integrate resources and operations. The enterprises have different cultures, values, and operating style due to their different backgrounds and external environment. The cultural differences arising from cross-border M&A are not limited to those on the company level, but also on the national level. The clash of cultures can arise from different countries, nationalities, or companies. Culture determines the communities' tendencies towards convergence into a thinking, a behaving, and an expressing model, etc., having similar values and individual pursuits. When different social groups and organizations (including enterprises) interact, their cultures inevitably meld. This melding of different cultures helps propel a company's development.

Cultural integration eliminates conflicts arising from cultural differences by organizing and amalgamating the values, psychological states, and behavior modes of different communities. The cross-border M&A cultural integration inherits and rectifies the psychological contract of the target company for minimizing the amount of cultural conflicts and forming the diversity and unity due to the cultural differences in multi-national enterprises (Gu & Xue, 2004). Cross-border M&A cultural integration seeks to reduce cultural differences as much as possible in the acquired company. Therefore, whether the cultural integration is successful or not is critical to the success or failure of a cross-border M&A. In general, the following problems should be solved in cultural integration of cross-border M&A. First, it should coordinate the cultural differences of peoples and states to promote understanding and communicating between the different communities in one enterprise and to avoid the negative influence arising from the different thinking models, behaviors, and values. Second, it should coordinate the different company cultures to eliminate the barriers in leadership styles, communication models, personnel system, performance appraisals, and social security benefits. Third, it should establish the company's core values by integrating diverse cultures to improve the company's creativity and competitiveness. Fourth, the effective integration of the companies' cultures could provide conditions beneficial for the integration of operations. Therefore, cultural integration of cross-border M&A plays an important role in helping the company maximize its capital, technique, sales, and other advantages.

### **Content of Cultural Integration of Cross-Border M&A**

The cultural integration of cross-border M&A is a process that recognizes and coordinates the cultural differences of states and enterprises in cross-border M&A. Cultural differences of nations are found in attitudes toward nature, rules, status and power, ideas of individual and group, time, the modes of communicating and thinking, and interpersonal relations. European scholars have compared Chinese corporate culture with Western corporate culture and found several differences (Li, 1999). For instance, the Chinese tend to pay more attention to social status, care more for "person" than "thing," make concrete analysis under concrete conditions when they face the problems, act passively and weigh the collective over the individual. However, the West, prefers to cooperate, care more for "thing" than "person," is more proactive, stays loyal to principle, and values the individual over the collective. It can be concluded that cultural differences exists between China and the West. Cultural differences between nations have been built up from many years of history. Every individual's cultural

characteristics have been formed during the person's growth process and have imbued a deep cultural sense, personality, and sense of belonging. Moreover, the individual inheriting a certain traditional culture becomes the disseminator and modifier of the culture. Therefore, the cultural differences of nations are of the first importance. They are not only reflected in the operation and management of the buyer but also have significant influence over the buyer's decision to expand in the host country and acclimate itself into the country.

In addition, each organization develops a certain shared value system that is recognized as "company culture." Cultural differences between enterprises are found in the way they operate, direct, communicate, and motivate. Different corporate cultures will cause employees of different companies to make different decisions about such issues as their attitudes towards risk, corporate planning, and employees' freedom to decide how to do their jobs, preferences for completing a task individually or on a team, management concerns about their subordinates, and so on. The company culture penetrates almost every aspect of staff's routine duties. The cultural differences are easier to resolve than cultural difference in nations because they may not necessarily become part of the employees' inherent characteristics. However, the cultural differences of enterprise are also important factors in the M&A, even if they are less important than cultural differences.

It is the core content of cross-border M&A cultural integration to integrate cultural differences of nations and those of enterprise, which are interdependent, not separate. The enterprise located in a certain country is inevitably affected by the culture of the country. Furthermore, the culture of a nation determines the premise of the enterprise culture. Cross-border M&A creates a situation of cultural diversity in the enterprise, which leads to the development of cultural character in the process of integration. In other words, the culture of multinational enterprise is not only dependent upon the culture of one country but as different cultures collide and merge with each other, it becomes more complex. Therefore, it is necessary for the multinational enterprises to carry out cross-cultural management to integrate the cultural differences and resources effectively.

### **Method for Cultural Integration of Cross-Border M&A**

Cultural integration of cross-border M&A is a process to coordinate diverse cultures and make them mutually exist and develop within an enterprise. However, cultural integration is not as simple as merging all the different cultures into one, but a process to form a new multinational corporate model by selecting, absorbing, and integrating cultures. Cross-cultural management is an effective method of realizing the cultural integration of cross-border M&A successfully. Cross-cultural management refers to a system that an enterprise, in the course of M&A, selects adaptive pattern of cross-culture management, overcomes conflicts and unfavorable influences, converts the negative factors into positive factors, and gains power of the cultural synergy.

Cross-cultural management has its own principles and patterns, which shall be followed in the process of fulfilling cross-cultural management. Basic principles of cross-cultural management lie in respecting and understanding the cultures of others, placing importance on communication, and making adaptive changes. People are the core of cross-cultural

management. Culture is reflected in the thinking and behavior of people. Management is all about getting the best performance out of people. The buyer should respect the culture of the target company and try to understand the culture. The company should not use fixed values to judge the other company's culture, but should synthesize the company's strategic significance with its culture. Communicating with each other effectively and understanding each others' culture is the most effective way to eliminate cultural conflicts. Establishing a new culture after M&A is the amalgamation of different cultures and need not have the cultural imprint of a certain country or nationality. It will be a combination of different cultures.

These four principles are interdependent and in the whole make up the basic principles of cross-cultural management. There are four models of cross culture management to resolve the cultural differences between the buyer and target companies.

The first model is localization strategy, which refers to when each subsidiary of the company located in other regions or nations is regarded as an independent entity so that the strategy and decision of the subsidiary can be made according to the local conditions. The parent company's operating model is not imposed on the subsidiary. Rather, the management policy is made according to the local conditions. When the company is recruiting managers or other staff, there is little consideration given to their nationality or where they come from. The buyer respects the local culture and benefits from the localization strategy.

The second model is transplanting the culture of the parent company. In this model, the buyer appoints its people to manage the target company in order to guarantee communication between the buyer and the target, and the buyer supervises and controls the target. As a result, the buyer can transplant its culture into the target company and gradually get the local staff to accept its culture.

The third model is the cultural innovation by integration. In this model, the cultures of buyer and target companies coexist; a new culture and management pattern are formed through the integration of the two cultures. Cultural innovation can maximize the cross-cultural advantage.

The fourth pattern uses evasion tactics. In this model, when there is a tremendous cultural gap between the buyer and the target, it is necessary for the manager appointed by the buyer to avoid the key cultural differences. Under this circumstance, the third party shall be asked to bridge the gap between cultures. This model does not address the problem and has considerable limitations. In general, it only can be used as a transitional method. Buyers can select one or a combination of two or more of these four patterns, taking into consideration the cultural character of themselves and their targets, to culturally integrate.

### **Conclusion**

Due to cultural differences and conflicts between nations and enterprises, cultural integration of cross-border M&A becomes an inevitable barrier to overcome through the course of cross-border M&A. Nowadays, the corporate culture has become the spiritual pillar of modern enterprises. If the manager cannot clearly grasp how the enterprise culture works in his organization, he or she will be unable to manage it effectively. Therefore, it is very important

for multinational enterprises to recognize cultural differences and conflicts in order to integrate the different cultures of merged companies. Cross-cultural management is a systematical method for the cultural integration of cross-border M&A. If multinational enterprises comply with the basic principles of cross-cultural management and choose an appropriate cross-cultural management pattern, the negative effects arising from cultural conflicts will be avoided and their competitiveness will be strengthened.

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