Integration of cultural differences on mergers

Despite the vast research stressing the importance of culture in a merger and acquisition (M&A) process, studies have shown that more than nine out of ten corporate ventures are not able to reach their objectives, with failure often occurring because of unsuccessful integration of corporate cultures and management styles. Indeed business leader have a tendency to focus on finance and technology issues without really considering cultural differences. Hence this research project aims to explain in what extent culture has an impact on a M&A process

The research assumption were that cross-border mergers are beneficial for companies, but that cultural incompatibility is often a source of conflict leading to failure of a M&A. Such failures are expensive as they proved to be financially damaging, but also because they affected both corporate images and competitiveness. Here the problematic was to assess if these assumptions could be justified; and, if so, what were some suggestions for avoiding these conflicts.

Data collection was based on unobtrusive measures whereby researchers selected two ventures; Daimler-Chrysler (a failure) and Renault-Nissan (a success); that allowed comparison in terms of cross-cultural management strategies in order to clearly identify what are the major reasons explaining the failure of a M&A.

Hence results showed that elements such as language, mutual respect and trust, attitude towards hierarchy, and preference for individualism rather than collectivism; have all an influence on corporate M&A. Business leaders would have to consider such factors to make the venture successful in the long term. This implies an implementation of integration strategies that consider the culture of the merging partner, but also strong staffing policies enhancing the share of knowledge and values within the organization.

Research assumptions and questions

Based on the literature of cross cultural studies, the research assumptions were that; (1) corporations have much to gain from cross-border mergers as it is a major answer to globalisation and the changing market environment (Weber, 1996). However (2) it is often the case that cultures of merging partners are incompatible, resulting in conflicts that lead to failure of the venture (Cartwright & Cooper, 1993). (3) Such failures are expensive as they prove to be financially damaging, but also because they affect both corporate images and competitiveness in the global marketplace. Hence research questions were to assess if these assumptions could be justified; and, if so, what are some suggestions for avoiding these conflicts?

Method of data collection

Data collection was based on unobtrusive or non-reactive measures that can be identified as a method whereby research on people and their social environment can be achieved without any direct contact with them (Kellehear, 1993). In doing so, people remain natural in their behaviour and interactions with their environment; which in turns preserves the validity of the data. In addition this concept of non-involvement facilitates the research because researchers do not need support from others (Babbie, 1969). Lastly such measurement does not have any cost, the main expense being the time allocated to develop the research. Hence this particular method of data collection was the most suitable to the chosen topic as it easily allowed researchers to access a reasonable amount of both primary and secondary data without having to involve others in their study. Regarding to the selected topic, it has been highlighted that the integration of cultural elements in a M&A process is a key component to understand and explain the high rate of failure that result from such ventures (Lodorfos and Boateng, 2006). As a result, two ventures have been selected, Daimler-Chrysler (a failure) and Renault-Nissan (a success). Moreover due to the importance given to both mergers that have been reported all over the world, the research topic becomes suitable for a research as it is a current issue of international interest.

Findings

The Daimler/Chrysler Merger – A failure

The marriage of the German Daimler-Benz and the American Chrysler in 1998 was one of the largest mergers in the history between two of the greatest automobile companies in the world. However, that marriage could not endure for long time.

In the period leading up to the Daimler-Chrysler merger, both firms demonstrated great performance and leadership within international automobile industries (Chrysler was the most profitable American automaker by then), and there was extensive expectations of the merger being successful in the long run (Cook 1998). Initially, the merger of these two firms was announced as the “ merger of equals”; which would enable each division to benefit from the other’s strengths and capabilities. However, all those expectations and optimism regarding the success of the merger never materialized because of cultural and economic problem that affected the unified company.

After the merger, the new DaimlerChrysler company performance was completely different, especially at the Chrysler division. At the time of merger, the Chrysler stock was traded at $84. After a short period of high value stock price, its value started to drop, reaching the lowest price of $37. 75 by 1999 (Badrtalei and Bates, 2007). By the end of 2000, the scenario was even more difficult that Chrysler announced major actions of laying-off 26000 employees and the closure of six plants in U. S operations followed by colossal losses (CNNMoney, February 29, 2001).

The decline of profitability, the fall of the stock price and the poor performance have been attributed to a large number of issues resulting from the external elements (e. g. the increasing competition), and internal elements such as the decision making processes under the new organization, and the evidence of cultural barriers which made the operations less efficient .

Cultural differences between the two organisations were certainly the leading factor of this failure (Vlassic and Stertz, 2000). This was noticeable, especially, in the breakdown of the integration process of operations and management activities between both companies due to the widespread differences in which the Germans and Americans operated. While Daimler Benz´s culture focused on a more formal and structured management style, Chrysler, on the contrary, supported a more relax and permissive style (Weber & Camerer, 2000). The departure of many Chrysler´s American executives and the German increasing dominance of those positions at Chrysler, led to poor performance and low satisfaction among the American employees. Consequently, the German division became increasingly dissatisfied with the performance of the Chrysler unit.

The Renault/Nissan Alliance – A success

The tendency of alliances towards globalization was everywhere in the car industry since the last two decades. Strategic alliances allow companies to enter in new markets, create new products, reduce cost of production, recover from financial downturn, and leverage over the experience of other companies. This was the case of two successful companies within the automobile industry, Renault from France and Nissan from Japan; both shared strengths and weaknesses and were able to match in an alliance to increase competitive advantages (Park & Hattem, 2009).

Renault was a strong corporation aiming to expand its business, especially its production line, in new markets such as the U. S and ASIA. Therefore the company was looking for a new partner. Despite of financial setbacks Renault has been recovering since 1989 with a positive balance. For instance, it gains margins from 3. 6% to 4. 6% and has been growing since 1998.

Furthermore, among its various strengths Renault has been the leader in mid-range sizes car; a segment being requested all around the world especially in Western Europe. In addition, the firm has a functional, reliable, and stylish brand, low costs of production, and few platforms.

On the other hand, Nissan was looking for a partner in order to gain market share and cut its production costs. However, since 1998 the company has been involved in financial problems and had a debt of 23 billion Euros. Accordingly, Nissan had to find a partner being able to assist its financial recovery and also its reorganization of the production.

One of the main problem the companies faced was that they focused principally on engineering over management culture and also that the costs of production were higher than the amount of sales. Moreover, the companies did not develop a relationship with suppliers neither with customers. Besides, all management decisions were taking collectively and at the end no one could took good decisions. Further, the capacity of production was higher than demand 2, 260, 000 / 1, 706, 000 and this raised elaboration costs.

Consequently, both companies learned from each other, they had complementary strengths and they improved their weaknesses. Thus, the Renault/Nissan alliance helped to improve production processes, reduction of costs, and increase market share (Graham, 2003). Nevertheless, both companies shared synergies to improve processes in a win/win strategy. Also companies conserved autonomy respecting business and brands identities (Park & Hattem, 2009). They implemented the English as a common communication tool so both companies could work as a single team resulting in a strong corporate culture (Graham, 2003).

Data Analysis

Common corporate language

As the DaimlerChrysler merger illustrates, corporate members tend to consider language as a basic translation problem rather than an essential managerial issue. At the time of the merger the established corporate language was English, which was often perceived as a major victory for the Americans (“ DaimlerChrysler: Crunch Time,” 1999). However in mergers of equal, language is linked to the notion of power balance between the merging partners. Indeed a common language is opposed to the sentiments about national dominance, and that affects the integration process (Welch et al. 2005). For instance at the time of the merger, even though English was the functional language, press conferences were held in German with questions posed in English and answers given in German. Hence this shows the importance given to German top managers and their influence in terms of control of the organization (“ Tongue-Tied in Stuttgart,” 2001).

Individualism vs. Teamwork

In the DaimlerChrysler merger, Germany and USA showed obvious dissimilarities. For instance, individualism and teamwork-orientated values led to different aspirations for employees towards work and the given authority. Individualism refers to the tendency of people to look after themselves and their immediate families first, and only then the needs of society (Deresky & Christopher, 2008). The U. S is notably among those cultures which prize individualism, while Germans are more focused on the result of the whole organization. There is no evidence that the team approach to work is better than the individualistic one (Church, 1998); however, inefficiency arises when employees from diverse cultural background are asked to collaborate.

High vs. Low Power Distance

Although the Renault/Nissan alliance proved to work successfully, it encountered some cultural problems in the early period. During this period cultural values such as power distance had to be managed by both sides of the merger. Power distance ranks the level of acceptance by the members of a society of unequal distribution of power within it (Deresky & Christopher, 2008). Societies with strict hierarchy such as Japan, exhibit greater power distance (Chakrabarti et al. 2004). Therefore in a company like Nissan, formal positions in the hierarchy are respected as it is inappropriate to challenge the authority of higher positioned colleagues. Conversely at the Renault division, employees' mutual respect was widely understood and prevailed comparatively.

Notion of mutual respect

According to Lewicki and Bunker (1996); an alliance is successful if companies establish mutual confidence and mutual understanding of each other. Also, there is a success if ventures focus on people instead of just operational and technical issues (Cartwright and Cooper, 1993). Indeed the Renault/Nissan alliance was successful due to a relationship based on trust and mutual respect. In addition Rosabeth Moss Kanter (1994) states that CEOs tend to focus more on financial aspects rather than human considerations. The latter was well managed by the French and Japanese companies that implemented the use of English as a common communication tool in order to create an environment where employees were encouraged to learn from each other (Park & Hattem, 2009).

Doing and Being Culture

In a “ doing” society, status and influence are based on what you do or how well you perform, while in a “ being” society, status is accorded on the bases of who you are (Deresky and Christopher, 2008). This cultural assumption is evident in terms of “ performance appraisal” in the case of DaimlerChrysler. Both divisions appraised their performance through results in productivity and profitability. The source of power and influence were based on individual achievement, whereas in the Renault/Nissan case, people were more likely to be judged in terms of integrity, loyalty, respect and cooperative disposition. For the French and the Japanese, feedback is regarded as an undesirable commentary on who they are (Deresky and Christopher, 2008).

Summary and suggestions

As the research highlighted, culture plays a significant role in the integration process, which it is frequently ignored by organizations involved in the M&A. Regardless the origin of the firms involved, there will always be cultural differences, which must be considered in advance, and treated with respect and understanding. The exclusion of this issue in the integration process may cause cultural conflicts between the merger partners and consequently lead to failure.

Carlos Ghosn; Renault-Nissan CEO; stated during a press conference that:

” One of the basics of transcultural leadership is empathy, love the country and love the culture in which you are in… try to learn about its strengths, don’t focus on the weaknesses, and make sure that all the people you are transferring with you are of the same opinion” (INSEAD, 2008).

Hence culture must be blended rather than changed (Badrtalei and Bates, 2007).

In terms of suggestions, research shown that in a M&A process differences in language make difficult the transfer of corporate knowledge and values. Therefore language adaptation must be required by employees of one or both sides of the venture in order to successfully manage cultural differences (Welch et al. 2005).

Also managerial decisions of an international venture should be bound on cultural differences; i. e. take the cultural background of the workforce into consideration. Hence, corporate executives would adapt their staffing strategies and policies in order to maintain and develop a competitive advantage. Here the level of hierarchy within the cross-border merger will have to be managed and the concept of ethnocentrism would be avoided in order to guarantee the success of the venture.

In addition, rather than being focused on the strategic, legal and financial aspects, corporate leaders should spend more time in understanding the differences in deep-rooted national values, languages and customs. Relationships among merging partners should be based on mutual trust and respect as it is an essential determinant of a merger’s success.

As a result the assumptions are justified. Indeed the research above showed that cross-border mergers were beneficial for companies, but that cultural incompatibility was often a source of conflict leading to failure of the venture. And that such failure was expensive as it proved to be financially damaging, but also because it affected both corporate images and competitiveness.

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