Culture and its importance

Art & Culture

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Yes, they were still Turks, but they knew what Canadians expected. And they knew Canadians very well, so they forgave us when we made faux pas, they understood that we like Christmas Day off. They were patient and gave us a year to understand them. Cultural Differences 5 Canadian executive, describing experiences in his company’s joint venture in Turkey Of course, initially there were apprehensions about being bought by foreigners. Foreigners to us is anyone outside the local community.

American executive, describing his company’s acquisition by a British company In Search of Cultural Differences As economies globalize and organizations increasingly form cross-border relationships, there is a resurgence of interest in the management problems caused by national cultural differences – in values, ideologies, organizational assumptions, work practices, and behavioural styles – spawning research reminiscent of national character studies following the Second World War.

Recent findings about the cultural propensities of major countries appear robust, replicated in surveys of the values of managers[1-3], as well as used to explain institutional patterns within countries[4]. Such findings are often consistent with stereotypes evoked by managers to explain others and themselves. Cultural generalizations roll easily off the tongues of people in our studies. For example: several Europeans predicted problems Volvo and Renault could have in combining Volvo’s Swedish egalitarianism with Renault’s French hierarchy.

A German executive working in a French-American alliance commented that Germans and Americans had more values in common than either did with the French, invoking this as an Important contributions to the case studies and interviews for this paper by Kalman Applbaum, Pamela Yatsko, Madelyn Yucht, Paul Myers, Claudia de Dominicis, Tom Hughes, Liska Ouellette, Saba Hapte-Selassie and Thuy Tranthi are gratefully acknowledged, as is the support of the Division of Research of the Harvard Business School. Copyright 1993 by R. M. Kanter and R. I. Corn. Used by permission. Journal of Management Development, Vol. 13 No. 2, 1994 pp. 5-23. MCB University Press, 0262-1711 Journal of Management Development 13, 2 6 explanation for why an American sent to London to lead the integration team was viewed as incompetent by the French partner for failing to make authoritative decisions[5]. Furthermore, people often assume cultural heterogeneity creates tensions for organizations.

Managers, even within a single country, often prefer homogeneity to heterogeneity, because shared experiences and culture are a basis for trust[6]. Yet, while national cultural differences clearly exist at some level of generality, it is more difficult to specify how the presence of such differences affects organizational and managerial effectiveness. Evidence and observations in a range of situations raise questions about the usefulness of the “ cultural differences” approach for managers. For example: ?

When people of different national cultures interact, they can be remarkably adaptable, as in the Japanese history of borrowing practices from other countries[7]. And even though it is supposedly more difficult for managers to operate outside their home culture, multinational companies have long succeeded even when expatriate managers make mistakes. Many industrial firms have operated successfully in foreign countries while showing insensitivity towards local values or treating host-country personnel less well than home-country personnel[8]. Technical orientation can override national orientation. There is evidence that similar educational experiences – e. g. for managers or technical professionals – erase ideological differences; those within the same profession tend to espouse similar values regardless of nationality[9, 10]. At Inmarsat, an international satellite consortium owned by companies from over 60 countries and staffed at its London headquarters by 55 nationalities, differences between functions were a greater source of conflict than differences between nationalities.

Although stereotypes abounded (“ Spaniards are often late”; “ Indians like to talk”), engineers who shared a technical orientation quickly adjusted to each other’s foibles – easily enough that a training programme on cross-cultural management was poorly attended[11]. ? Tensions between organizations which seem to be caused by cultural differences often turn out, on closer examination, to have more significant structural causes. A Scottish construction company had difficulty in its first international partnership with a French company.

The failure was widely explained by employees as caused by differences between a “ beer culture” and a “ wine culture”. Its next partnership with a Dutch company was more effective, supposedly because of the greater compatibility with the Dutch. But in the first partnership, the companies set up many “ dealbusters”[12], from letting lawyers negotiate for executives, to ignoring assumptions about future business strategy. In the second case, they learned from their mistakes and changed the way they worked with their partner. National cultures had little to do with failure in the first instance and success in the second. Cultural value issues – and issues of “ difference” in general – are more apparent at early stages of relationships than later, before people came to know each other more holistically. And outsiders of any kind, even from the next neighbourhood, can seem different. But once people get to know each other beyond first impressions, relationship dynamics are often determined by power rather than culture. Resistance to the new American chief executive of a British retailer was resistance to change, not to culture differences.

National culture issues were simply one more piece of learning as he moved from outsider to insider; they did not affect his ability to do his work of managing a fast and successful turnaround[13]. ? Central country value tendencies are often reported at a very high level of generality, as on average over large populations themselves far from homogeneous. Thus, they fail to apply to many groups and individuals within those countries. There are strong individual, regional, and ethnic differences within countries that are masked by the attempt to find country patterns.

For example, an American who had served in Japan during the Second World War liked the docile women he saw there. He decided to marry a Japanese woman, only to discover after the marriage that she came from the one part of Japan that encouraged assertive, dominant women. And not only are there individual as well as ethnic differences within countries, but individuals themselves derive their behaviour from many influences and can hold multiple identities. The chairman of Matra Hachette in Paris calls himself “ a Gascon, a Frenchman, and a European”. Finally, group cultural tendencies are always more apparent from outside than inside the group. Indeed, people often only become aware of their own value or culture in contrast to someone perceived as an outsider[6]. The British writerGeorge Orwellobserved that national identity and cultural similarity is salient only for those returning from abroad or when the country is threatened; otherwise, people hold firmly to their individuality and are more aware of differences among those within the same nation.

For these reasons, then, we wondered about the circumstances under which cross-cultural interaction would affect business performance. The Foreign

Acquisitions Study To learn more about managerial issues provoked by cultural differences, we looked for situations in which cross-cultural interactions might produce organizational tensions. Kanter's studies of international strategic alliances and joint ventures, reported in a series of Harvard case studies and articles[14], had uncovered a large number of strains between cross-border partners, but most of Cultural Differences 7

Journal of Management Development 13, 2 8 these involved strategic, organizational, political, or financial issues. But perhaps that was because the relationship between venture or alliance partners is assumed to be one of relativeequalityand independence; each partner retains its owncultural identityas well as control over its own operations, co-operating with the other for limited purposes while insulating core activities from the relationship. We looked for another test in the realm of foreign acquisitions, in which cultural differences would perhaps play a greater role.

Foreign acquisitions of US companies increased over the last decade. In 1990, 446 such deals, valued at $46. 2 billion, were completed, compared with only 126 deals valued at $4. 6 billion in 1982. Foreign acquisitions of US companies accounted for 28. 1 per cent of the total value of merger and acquisition activity involving at least one company in 1990, compared with only 7. 6 per cent in 1982[15]. This acquisition situation, we proposed, would heighten American managers' awareness of their own culture and its contrast to the acquirer's culture, as they merged operations or shifted control over decisions.

Since American companies were more accustomed to acquiring foreign operations than being acquired, the " reversal of roles" experienced when being acquired would perhaps exaggerate tensions enough to bring cultural issues to the surface. Therefore, we developed a pilot project with eight companies. T he Companies Approximately 75 interviews with senior and middle managers were conducted by Harvard Business School teams in 1992 and 1993 at eight mid-sized New England-based American companies which had been acquired by foreign companies in the period between mid-1987 and 1990 (with one exception acquired in1984).

All companies had enough experience with the foreign parent to provide time for cross-cultural contact to occur and any problems to surface; but the acquisition was also recent enough for managers to have freshmemories. The circumstances surrounding the acquisitions differed in some respects. One was a strictly arms-length financial investment in which a well-known sporting goods manufacturer was acquired by a Venezuelan financial group as its only US holding in a leveraged buyout from investors who had acquired it two years earlier; as long as profits were high, there was minimal contact with the parent.

In two other cases, there was a history of relationships between the foreign parent and the acquired company prior to the acquisition: a familyowned retailer had developed a business partnership with a larger but alsofamily-owned British chain four years before the acquisition as part of a succession plan; and a metals manufacturer had formed a number of joint ventures with a Japanese conglomerate beginning seven years before the acquisition, turning to its Japanese partner as a defensive tactic against a hostile takeover threat.

Other acquisitions also stemmed from financial distress: an armaments manufacturer was bought by a British conglomerate after the US company faltered under a sequence of four different American owners; an abrasives manufacturer was bought by a French company as a “ white knight” in a takeover battle with a British company; and a US retailer was sold to a Japanese retailer when it no longer fit its US manufacturing company parent’s strategy. In many of the cases, then, foreign acquirers were sought by the US companies to solve a problem.

Two of the companies, given the pseudonyms Metalfab and Hydrotech, were observed by the second author in particular depth. Both were engineeringoriented manufacturing companies with operations primarily in the US and annual sales between $100 and $200 million. Both were previously owned by financially-troubled US parents whose core business was in a different industry, and both were bought by well-respected, internationally-experienced companies in the same industry.

Corn conducted 30 interviews at Metalfab, a manufacturer of fabricated metal products acquired about five years earlier by Fabritek, pseudonym for a Swedish manufacturer in the same business. He also conducted 21 interviews at Hydrotech, a designer and manufacturer of hydraulic systems acquired about three years earlier by Gruetzi, pseudonym for a German-Swiss manufacturer of industrial energy systems.

But while Metalfab was acquired by a company of similar size and was operating at a pretax profit, Hydrotech’s new parent was much larger and more diversified geographically and technologically, and Hydrotech was accumulating significant losses. Cultural Differences 9 Overview of the

Findings The interviews at all eight companies focused on the history of the companies' relationships, their business situations and business strategies, the amount and kind of cross-cultural contact between managers, difficulties and how they had been resolved, and any organizational changes which had come about as a result of the merger.

We expected cultural differences to play a prominent role in the dynamics of the integration, especially because so many questions probed these issues specifically – from asking for characterizations of " typical" American and parent country managers to comparing managerial styles in concrete situations. (The study was thus " biased" towards finding cultural differences and tensions because of them.) We expected many difficulties to arise, necessitating many organizational changes, and we expected American companies to resist learning from their foreign company parents.

We also expected some combinations to be more volatile than others, such as the Japanese-American interactions, either because of prejudice or because of values and style differences. We found, instead, that nationality-based culture was one of the less significant variables affecting the integration of the companies and their organizational effectiveness. We found that relatively few issues or problems arose which could be labelled " cultural", even though managers were able to identify style differences easily that fit common cultural patterns.

We also found that very few measures were taken to facilitate cultural integration. Only a moderate number of difficulties were encountered or organizational changes Journal of Management Development 13, 2 10 necessitated, and US companies learned from their foreign parents.

Furthermore, there was no discernable pattern of cultural compatibility; all nationalities worked well with their American acquisitions. In general, mergers and acquisitions create significantstresson organizational members, as separate organizational cultures and strategies are blended, ven within one country[12]. Differences in national cultures are assumed to add another layer of complexity to the merger process. But our findings suggest that contextual factors play the dominant role in determining the smoothness of the integration, the success of the relationship, and whether or not cultural differences become problematic. These findings lead us to conclude that the significance of cultural differences between employees or managers of different nationalities has been overstated.

Cultural values or national differences are used as a convenient explanation for other problems, both interpersonal and organizational, such as a failure torespectpeople, group power and politics, resentment at subordination, poor strategic fit, limited organizationalcommunication, or the absence of problem-solving forums. Such differences are invoked as explanations for the uncomfortable behaviour of others when people have limited contact or knowledge of the context behind the behaviour.

Culture versus Context as an Explanatory Factor Most interviewees were able to identify a number of ways in which they differed “ culturally” from their foreign colleagues in values, interpersonal style, and organizational approach. Many of these “ fit” the position of countries on dimensions Hofstede[1] identified, especially power distance and individualism/ collectivism. The first difference issue mentioned, however, was an objective one: Language problems. A majority of Americans found the difficulty in overcoming language differences with all but the British acquirers to be the biggest “ negative” surprise of their respective mergers.

One American at Metalfab stated that “ during initial meetings, we assumed that when we spoke English to the Swedes and they nodded their heads, they understood what we were saying. Now we realize the nods only meant that they heard the words”. Employees at Metalfab and Hydrotech also recalled meetings in which their foreign colleagues would agree to adopt some new procedure, “ only to go right back to doing things the same old way as soon as they left the meeting”. American employees noted cultural differences in decision-making styles.

Many argued that their foreign parents’ management team took a longer-term view. Americans at Hydrotech and Metalfab routinely expressed frustration with the unwillingness of German-Swiss and Swedish managers to make decisions without a great deal of analysis. Europeans noted the American reputation for fast, less thoughtful decisions. A British manager involved in the armaments company acquisition said, “ Unlike American companies which manage by quarterly numbers, we at UK headquarters base our strategy and business policies on long-term positioning”.

American interviewees also identified a number of differences in interpersonal style between themselves and their foreign colleagues which they attributed to national culture. The Swiss were described as “ very orderly and efficient”, the Swedes were universally described as being very serious. British managers were described as less emotional, less community-oriented, more deliberate, and much less likely to “ shoot from the hip” than Americans. Europeans were described by nearly all American employees as being more formal, less open and outgoing, and slower to form friendships than are Americans.

Japanese managers were described as very courteous and polite. Several Metalfab employees stated that the Swedes were much more likely to argue with each other publicly than were Americans. One American official recalled that in the early days of the merger, he and an American colleague would stare at each other in board meetings while the Swedes argued among themselves. The American manager claimed that his American colleagues would have been much more likely to discuss such differences privately.

The Swedes were also described as having less respect for authority and greater willingness to confront their superiors publicly than are Americans – signs of low power distance in Hofstede's terms. Other employees stated that Swedish managers are not as " results-oriented" as Americans when it comes to running meetings, ending meetings without a resolution or an understanding of the next steps. Swedes were described by several American employees as very critical, both of themselves and others.

One American manager stated that " Americans are taught that it is more constructive to give pats on the back than to focus entirely on shortcomings as the Swedes are inclined to do". In short, most of those interviewed found differences between themselves and their foreign colleagues to be clearly identifiable and immediately noticeable following their respective mergers. Employees attributed a majority of these differences to national culture. But a closer analysis of these responses reveals a tendency for employees to attribute to culture differences which are more situationally-driven.

For example, several employees stated the Swedes were unwilling or incapable of adjusting their planning and forecasting assumptions in light of changes in theenvironment, that the Swedes were more determined than are Americans, to meet old budget targets. This may reflect the fact that as parent, the Swedes and German-Swiss have the ultimateresponsibilityfor financial results. Similarly, slower decision making may reflect the fact that the Swedish parent involves more people in the decision-making process than does its American subsidiary.

Of course, the use of greater participation may itself reflect differences in values between Americans and Swedes, but it may also reflect differences in the organizational culture of parent and subsidiary or in country-specific industry practices. Senior managers generally had more direct contact with the foreign parent and thus more contextual information. They were much more likely to identify differences in business context that explained apparent differences in " cultural values". Senior executives at the American retailer acquired by a British company attributed differences in management practices to differences in

Cultural Differences 11 Journal of Management Development 13, 2 12 business environments in the US and UK. For example, the British company appeared to be less interested in people and more interested in facilities. But this was because its operating expenses tended to be weighted more towards rent than to labour, because British supermarkets were typically located in expensive urban areas, whereas in the US supermarkets were generally found outside the commercial core of the city, and US chains had unions which drove up labour costs.

There was also a tendency for American employees to attribute interpersonal difficulties with foreign colleagues to cultural differences without recognizing that Americans act in much the same way. There are recent public examples of American board meetings interrupted by public bickering. The popularity of the view that committees rarely accomplish anything similarly attests to the fact that Europeans are not the only ones who have difficulty establishing clear agendas in their meetings.

Finally, in the US, American employees frequently complain about superiors who rarely hand out constructive criticism. In sum, Americans were routinely able to identify a number of differences between themselves and their foreign colleagues, but the attribution of these differences to nationality often seemed to be misdirected. Additionally, in many cases, these differences are more suggestive of perception than of reality. Perhaps it was more convenient to attribute differences to culture than to context because of the popularity of national character stereotypes.

The role of national stereotypes was made clear in contrasting what American managers said about their own foreign acquirers (whom they knew well) compared with other nationalities (which they knew less well). An American senior executive at the sporting goods manufacturer had highly positive things to say about his Venezuelan parent, calling Venezuelans “ lovable, amiable, showing a high degree of concern for people”. In contrast, he said, “ The companies you do not want to have take you over are the Germans and the Japanese. They feel they know how to do it better and just come in and take over”.

But the companies in our study acquired by Japanese and German-Swiss parents reported just the opposite – that the Japanese, for example, were eager to learn from the American companies they acquired. In short, the greater the experience with managers from another country, the less reliance on negative stereotypes. Furthermore, while many interviewees were able to identify behavioural style differences between American managers and their foreign parents, they also spoke of cultural compatibilities in values, business strategies, and organizational approach. Such similarities overrode style differences.

Both retailers in the pilot study, for example, spoke of the common concerns and philosophies they shared with their foreign parent – one Japanese, one British. Finally, just because people could point to differences, that did not mean that the differences had operational consequences. Interviewees were asked to assess the extent to which cross-cultural differences created difficulties in the relationship between parent and subsidiary. Interestingly, many employees felt that although differences exist between their cultures, such differences did not create significant problems for employees.

This finding cuts to the heart of this study's central question: if cultural differences between a parent and subsidiary do not necessarily lead to significant inter-organizational conflict, what factors moderate the relationship between cultural heterogeneity and organizational conflict? Why do American employees of foreign companies feel that cultural differences between their own firm and their foreign parent have not been particularly problematic? Here, our findings suggest that a number of contextual factors act as mediators in determining whether or not these differences will be problematic.

Contextual Factors as Key Determinants of Cros s-cultural Relationship Succes s Six factors emerged in the pilot study that accounted for the ease with which the merger was implemented and the relatively few difficulties attributed to national cultural differences: (1) the desirability of the relationship, especially in contrast to recent experiences of the acquired companies; (2) business compatibility between the two companies, especially in terms of industry and organization; (3) the willingness of the acquirer to invest in the continued performance of the acquiree and to allow operational autonomy while performance improved; (4) mutual respect and communication based on that respect; (5) business success; and (6) the passage of time. Cultural Differences 13 Relationship Desirability The first issue sets the stage for whether the relationship begins with a positive orientation. When people are in distress, poorly-treated in previous relationships, have had positive experiences with their foreign rescuer, and play a role in initiating relationship discussions, they are much more likely to view the relationship as desirable and work hard to accommodate to any differences in cultural style so that the relationship succeeds. First, almost all of the companies in the pilot study were acquired by foreigners after a period of financial distress.

A Hydrotech employee said, “ Everyone here was aware of the firm’s financial problems at the time of the acquisition. News of the purchase was viewed favourably. Gruetzi kept our doors from being padlocked. Everyone recognized that without Gruetzi, Hydrotech might not have made it”. While

Metalfab did not have Hydrotech's financial problems at the time of its acquisition, its employees took comfort from Fabritek's strong financial condition at the time of the takeover. The abrasives company was rescued by its French acquirer as a " white knight in a takeover battle". In all these cases, people were thus more likely to view their Journal of Management Development 13, 2 14 acquirers as saviours than villains. Cultural problems were therefore not problematic.

When asked to describe their initial reaction to the acquisitions, interviewees in several companies began with a description of how difficult life had been under its former parent. Several foreign parents in our study therefore compared favourably with each subsidiary's former US parents. Hydrotech and Metalfab's former parents had neither understood the business of its subsidiary nor shown any desire to invest in their subsidiary's long-term growth. The armaments company had four recent owners, several of whom stripped corporate assets and art collections, an experience one manager referred to as being " raped". Under new owners who cared about them, employees were therefore more inclined to tolerate and adapt to cultural differences.

In other cases, national differences were not a problem because the US and non-US companies had spent several years getting to know each other through joint ventures. The British retailer and the Japanese conglomerate had long worked closely with the American companies they eventually bought. Nearly every respondent at Metalfab and Hydrotech spoke with high regard for their parent's technical expertise, manufacturing skill, knowledge of the international marketplace, and reputation for quality. As one employee commented, “ Our concerns about the takeover were quickly put to rest. After all, Gruetzi was not an unknown quantity. They were an industry leader and we had worked with them on several projects in the past”.

In contrast, respondents who were less familiar with the operations of their acquirer appear to have been the most concerned and apprehensive about the news of the merger when it was first announced. As one employee recalled, “ At first I was sickened by the announcement, but when I saw Fabritek’s product line and the obvious potential for synergy, I became extremely excited”. Several respondents also mentioned that if the acquirer had a reputation for dismantling its acquisitions, they would have been far less sanguine about the takeover and the possibilities for success. Reputation was based not only on past direct experience but also on assumptions about how “ companies like that” behaved. One Metalfab employee claimed that compared with other countries, “ the Swedes are just like us”.

The conventional wisdom at Metalfab was that Scandinavian firms had a history of keeping their acquisitions intact. Finally, the ability to choose made a difference. In several cases, the companies themselves initiated the search for a foreign partner. The element of surprise that createsanxietyand uncertainty was missing. A Hydrotech employee stated: “ We wanted to be sold; I viewed the announcement as a real positive – someone wanted to buy us! ” Business Compatibility Organizational similarities were more important to most companies than national cultural differences. At the time of their respective mergers, employees of Metalfab, Hydrotech, and both retailers in the study took immediate comfort rom the fact that their new acquirers were in the same industry as they, especially the retailer sold by an American manufacturer to a Japanese retailer. As one Hydrotech employee stated: “ Our former parent showed no commitment to, or interest in, our business. Now, there is a much better fit”. Another employee stated: “ Everyone was initially apprehensive about the takeover but at least we were bought by a company which understands and cares about our business. This turned our initial apprehension into excitement”. Along similar lines, Metalfab employees reacted very favourably to the news that “ a metal company was purchasing a metal company”.

Organizational similarity meant that employees could feel that they play important roles in carrying out their parent’s strategy and believe that their parent values their contribution. As one Hydrotech employee stated: “ Despite the fact that Gruetzi is a much larger company than our former parent was, it is easier to see how we fit into their plans”. Thus, at both Hydrotech and Metalfab, the benefits of the merger were transparent to employees. As one manager stated, “ This was an easy announcement to make; the merger spoke for itself”. Employees at Hydrotech and Metalfab felt that sharing a common technical orientation with their parent allowed both rganizations to more easily overcome national differences. Several employees emphasized what a pleasure it was to work with a parent organization that understands the business they are in. As one engineer stated, “ our two firms are like twins that were separated at birth”. Employees at both Hydrotech and Metalfab also feel that their parents’ expertise and credibility in the industry has made it easier to accept them in the role of acquirer. One Metalfab employee’s comment captured the attitude of the firm’s employees towards foreign ownership when he claimed: “ It doesn’t bother me in the least that our parent is a foreign company because we speak the same language, Metal! A majority of those interviewed concluded that they would now prefer being taken over by a foreign company in the same business than by an American firm in a different industry. Cultural Differences 15 Investment without Interference Of all the actions taken by a foreign partner, none seems to have a more positive impact on morale and on attitudes towards foreigners than a foreign owner’s decision to invest capital in its subsidiaries. Fabritek spent $11 to 12 million upgrading the production facilities of its US subsidiary during each of the first two years following the acquisition and has invested an additional $6 to 8 million annually ever since.

Gruetzi has similarly invested in new equipment for Hydrotech’s Ohio production facility. To most American employees, such investment demonstrated that its new parent was committed to the company’s long-termhealth. When investment was accompanied by operational autonomy, the relationship was viewed very favourably and cross-cultural tensions minimized. In three cases – sporting goods manufacturer acquired by a Venezuelan company and both the retailer and the manufacturer acquired by Japanese companies – feeling lack of cultural tensions was a function of the Journal of Management Development 13, 2 16 minimal interference of the foreign company in its new US operations. “ They et us do what we are good at”, said an executive at the sporting goods firm, “ which is makemoney”. Employees at Hydrotech and Metalfab were surprised by the extent to which their parents allowed them to manage their own operations.

As one Hydrotech employee stated: “ Things have turned out much better than I originally expected. Gruetzi has not overmanaged us, they kept our management team intact, and we have not been forced to spend a lot of our time defending ourselves”. Metalfab employees were similarly pleased that their parent has allowed the firm to retain day-to-day control: “ While our parent provides us with suggestions, they have allowed us to run the show here”.

We argue that American employees are less likely to view cultural heterogeneity as a problem when foreign management allows such autonomy along with adding resources. It should be pointed out that complete autonomy was not welcomed by all employees; a minority of employees (those dissatisfied with their firm’s policies) mentioned that they would be happier if the parent took a more active role in managing its subsidiary. At least one Hydrotech engineer wished that Gruetzi would force the company to standardize its designs and acquire better tools for its engineers to work with. At Metalfab, several employees expressed disappointment that its parent had not prevented the company from moving operations to Mexico.

Furthermore, that high degrees of autonomy have possibly slowed down the speed with which the merged organizations develop a common culture. Several Metalfab employees reported that it has been difficult to “ pull our two families together and get the message out to customers that we are one firm”. Still, for the Americans autonomy generally meant that they did not feel foreigners were imposing “ foreign ways” on them, which made them more tolerant of differences rather than resistant to them. Open

Communication and Mutual Respect Nearly all interviewees agreed that open communication and showing mutual respect are critical to developing trust and ensuring a successful partnership.

One retailer, for example, felt that its new Japanese parent wanted to learn from American practice, which made them feel valued and made rapport with the Japanese easy to develop. Tensions occurred, in contrast, when foreign colleagues did not show respect for Americantechnologyand expertise. At Fabritek, Swedish engineers and marketing personnel initially viewed Metalfab’s traditional, composite products as inferior to their own, all-metal product, which required tighter engineering and manufacturing tolerances in order to ensure a perfect seal. As a result, Americans said that the Swedes saw themselves as “ the real engineers” in the company. But note here that the tensions were caused by technical differences, not cultural ones.) Similarly, Hydrotech engineers described their German-Swiss colleagues as very arrogant and protective about Gruetzi’s products; there was a feeling that Hydrotech engineers should not “ tamper” with their parent’s designs. Employee sensitivity to possible cultural differences played a significant role in reducing outbreaks of cross-cultural tension. One Hydrotech employee reasoned that cultural clashes had been avoided mainly because employees had been so concerned that such tensions could occur that they put more effort into trying to understand one another.

Similar concerns led executives at Fabritek and Metalfab to schedule frequent meetings with each other soon after the merger; these meetings improved understanding and lessened tension between the two firms. Ironically, one senior American official recalled that he had rarely met with executives from the firm's former US parent " even though they were located right down the road from the company". Though formal cross-cultural training programmes were rare, open communication helped build relationships. Sensitivity to cultural differences and willingness to deal with problems directly minimized organizational tension. Cultural Differences 17 Business Success Nothing succeeds like success. People are willing to overlook cultural differences in relationships which bring clear benefits.

But unsuccessful ventures produce squabbling even among people who are culturally similar. Creating opportunities for joint success between parent and subsidiary promotes acceptance of cross-cultural differences and creates support for the relationship. Several months before Hydrotech's acquisition by Gruetzi, a company project had " gone sour" due to a technical malfunction. After the merger, Hydrotech used Gruetzi's technology to solve the problem. For the many employees who had suffered through the project's difficulties, this single act sold the virtue of the partnership. Another Hydrotech employee stated: " We had not realized how quickly Gruetzi's technology could be put to use.

In only one year, our department was able to bid on two projects and win a $45 million contract". Nothing could possibly send a more positive message about the benefits of partnership than winning business because of it. Ongoing financial performance affects the quality and nature of communications between parent and subsidiary, and thus plays a role in determining whether or not cultural differences are viewed as problematic. If success reduces tensions, deteriorating performance increases them. Employees noted that travel budgets came under increasing pressure during periods of poor performance, and thus, fewer meetings take place between American and foreign employees.

In difficult times, communication between parent and subsidiary may deteriorate as employees in each organization focus on their own problems. Finally, poor performance leads to frustration, fingerpointing, and reduced trust. One Hydrotech manager noticed that as Gruetzi has encountered morefinancial difficulties, they became increasingly demanding of Hydrotech and focused more on the company's short-term operating results than in the past. The Pas sage of Time Does time heal all wounds? Time, at least, reduces anxieties and replaces stereotypes with a more varied view of other people. The levels of cross-cultural Journal of Management Development 13, 2 18 tension vary as a function of the stage in the relationship-building process.

Anxieties at Hydrotech and Metalfab were highest during the days immediately following the announcement of each takeover. This initial anxiety declined as the merger entered a transition phase in which management showed reluctance to create conflict. Employees of both subsidiaries also reacted positively to foreign management's willingness to discuss issues and listen to their concerns at that time. According to one employee, " these meetings made us feel good about the changes and made us realize how alike our philosophies were". But during the transition phase, employees also underestimated the degree of cultural heterogeneity and the potential for conflict to erupt.

As management began to focus on more substantive issues and the amount of communications between American and foreign employees grew, a new realization set in that the cultural differences between the two firms were greater than initially realized, which required more awareness and sensitivity to avoid conflict. It appears likely then, that employee perceptions of cross-cultural tension are affected by the passage of time and by the merger process itself. One might also expect that employee attitudes towards cultural heterogeneity will change as Americans and foreign employees work together and become more familiar with each others' customs and values. Mistrust is always more likely at early stages of relationships.

People at Hydrotech and Metalfab felt their new foreign parents were particularly guarded in discussing their technology during the first months together. As one employee mentioned: " It was like playing poker during the first year. You always got an answer to your question but the question was answered as narrowly as possible – even when, by withholding information, the answer was misleading". But another engineer recognized the significance of sharing technology noting that " when our parent provides us with technology, they are giving us their life's work". T he Negative Side of Cross-cultural Interaction: T hreat and Prejudice Positive views of the relationship between US company and foreign parent predominated, but they were not universal in the companies studied.

Top management and those with the greatest day-to-day contact were most likely to be favourable. Those at lower ranks anxious about the implications for their careers were more likely to express negative views, including prejudice and resentment, reacting the most nationalistically to the news of a foreign takeover. One American reported how " sick" he was over the fact that " this country is gradually being sold off to foreigners". Some higher level managers commented that they would have been more comfortable if their acquirer had been American, but this preference did not seem to affect the relationship. A manager at the armaments company reported: “ We would rather have been bought by a US company.

There is an element of national pride, especially in our industry. We are very patriotic. There is no one in the company that would say we are a British firm. We all wear and buy ‘ made in USA’ products”. Still, nationalist sentiments did not prevent this manager from declaring the relationship a success and identifying very few crosscultural problems. The most significant factor in determining employee reactions to acquisition was self-interest: how the change would affect their own standing in the firm. Virtually all interviewees reacted to news of the acquisition with the same question: “ How will this impact on mycareerin this organization? ”.

Those employees who were most likely to suffer a loss of prestige or power, or who had reason to feel threatened by the mergers were most likely to react unfavourably to it. However, the fact that the vast majority of employees in both companies did not react in this way attests to just how apparent the benefits of these mergers were to most employees. Therefore threat could work both ways; if the foreign company improved performance, jobs would be saved. A manager at the armaments company observed, “ The community and employees understand there are differences between us and the British. But for them, having good jobs is more valuable. When corporate survival is at stake, people cannot afford to have culture become an issue”.

Attitudes were shaped by symbolic acts taken by the foreign parents as much as by more substantive actions. One Metalfab employee recalled the day that Fabritek's president arranged to have group photographs taken of all employees in the US so that they could be shown to people back in Sweden. " Fabritek immediately impressed me as a very people-oriented company". The Attribution of Organizational Problems to National Culture Our findings suggest, then, that contextual factors act to either fan the flames of intergroup conflict and cross-cultural polarization or encourage organizational members to accept these differences. In the pilot study, organizational and technical compatibilities overwhelm cultural differences.

Cultural differences thus seem to be a residual category to which people attribute problems in the absence of a supportive context. Cultural differences do not automatically cause tensions. But when tensions do arise – often due to situational factors such as lack of communication or poor performance – people blame many of the organizational difficulties they encounter on cultural heterogeneity – on the presence of others who seem different – rather than to the context within which these problems took place. This view is consistent with Chris Argyris's perspective on defensive routines in organizations[16]. Why do people blame culture for problems and scribe differences between their own behaviour and that of their foreign colleagues to dispositional factors (the kind of people they are) rather than to situational factors (the organizational context)? First, cultural heterogeneity presents a conspicuous target for employees to point at when looking for an explanation for their problems. Such differences are readily apparent in early stages of contact between people who differ in a visible way, such as race, gender, or language, especially when there are only a few " tokens" such as expatriate managers among many " locals"[6]. Pre- Cultural Differences 19 Journal of

Management Development 13, 2 20 onceived notions and prejudices which employees bring into the evaluative process increase the likelihood that people will attribute behaviour to nationality. In-group favouritism is evoked in situations of cross-cultural contact. Research has shown that people want to favour members of their own group (the in-group) over others. Motivational theorists hold that self-esteem is enhanced if people value their own group and devalue other groups[17, 18]. Such favouritism leads to a set of cognitive biases which reinforce the distinction between in-group and out-group members. People expect in-group members to display more desirable and fewer undesirable behaviours than out-group members[19].

As a result, people are more likely to infer negative dispositions from undesirable and out-group behaviours than from undesirable in-group behaviours, and are less likely to infer positive dispositions from desirable outgroup behaviours than from desirable in-group behaviours[20-23]. Furthermore, people tend to remember behaviour which is congruent with their expectations over behaviour which is inconsistent with their views[24, 25]. Thus, memories reinforce in-group favouritism as well. In-group biases are especially likely to form when individuals identify strongly with their group and when in-group members view other groups as a threat[17]. During an acquisition process, employees who work for, and identify with their company for many years suddenly find that another firm, with its own culture vision, values, and ways of doing things is responsible for their future.

Cross-border mergers offer a particularly favourable environment for such biases to develop because group membership is clearly defined by national as well as organizational boundaries. At both Hydrotech and Metalfab, in-group favouritism and cognitive biases may have been the driving forces behind the tendency among Americans to attribute wrongfully " bad news" to their foreign parent (i. e. out-group members). In one case, Hydrotech management had frozen salaries and extended the required working week from 40 to 44 hours after the merger in an effort to " impress Gruetzi by showing a willingness to make a few difficult decisions". Many Hydrotech junior employees attributed this unpopular policy to Gruetzi's management.

Ironically, according to one middlelevel manager, when Gruetzi found out about these changes, they gave Hydrotech's president one month to reverse the policy. In another example, soon after Metalfab announced plans to transfer some of its manufacturing operations to Mexico, rumours began circulating on the factory floor that the Swedes were behind the decision. When senior management in the US found out about the rumours, the company's president called a meeting with all employees and took full responsibility for the decision. But many blue-collar workers continued to blame the Swedes for this unpopular move. They also attributed the decision to downsize the American workforce to the company's foreign parent.

A second explanation for why cultural differences are inappropriately invoked is called the " fundamental attribution error"[26] – a tendency to attribute one's own behaviour to the situation but others' behaviour to their " character". People attribute negative behaviour of foreign colleagues to their nationality or culture (dispositional factors) rather than to situational or contextual factors which are operating behind the scenes[27]. For example, Metalfab interviewees initially viewed their Swedish colleagues as fractious

(i. e. “ the Swedes are a stubborn people”) before it occurred to them that language problems had caused many early misunderstandings.

They attributed the fact that their Swedish colleagues were more engineering oriented and less marketing oriented to national biases (“ Swedes design bulldozers for the kind of work a garden shovel could do”) rather than to differences in product features and to the requirements of the European market. For example, rigid engineering standards for Fabritek’s all-metal products required engineers in Sweden to play a more central role in the parent’s operations, whereas the competitiveness of the US market demanded that marketing personnel play a more critical role in US decision making. But those who had more direct contact with the foreign parent, such as senior managers, also had more contextual information and were less likely to make the “ fundamental attribution error”.

If in-group biases and the fundamental attribution error are behind the tendency to view cultural heterogeneity as problematic, what steps might management take to promote inter-organizational co-operation in cross-border mergers? Our findings suggest that actions which make the relationship desirable, reduce uncertainty, show respect for the other group, create communication channels, and ensure business success will encourage employees to identify with their foreign colleagues and view the company as one organization. Creating an atmosphere of mutual respect, promoting open communication, investing in the future, maximizing opportunities to experience joint success, and taking steps to familiarize employees with their counterpart’s products and markets reduce the likelihood that cultural differences will be viewed as a source of organizational tension.

Conclusion These pilot study findings are only suggestive, of course. We have a small number of cases from one region. While none of them can yet be called a longterm success, they have survived a period of integration during which other companies which perhaps did experience debilitating cultural problems could have called off the marriage. We could be looking only at the “ winners” that managed cultural differences well. Indeed, those companies experiencing problems were more likely to turn down our request to participate in the pilot study. But if tilted towards successes, then this research points to some of the circumstances that contribute to successful cross-cultural relationships.

And since we “ biased” the interviews towards identification of cultural differences and cultural tensions, the relative absence of tension gives additional weight to our argument that contextual and situational factors, such as technical fit, business performance, and abundant communication, are more significant determinants of relationship effectiveness. Cultural Differences 21 Journal of Management Development 13, 2 22 Employees at each of the companies studied were able to identify a number of cultural differences between their own organization and that of their parent. Nevertheless, few employees viewed cultural heterogeneity as a significant source of tension in their firm. Such findings lend support to the notion that national cultural differences do not necessarily increase the amount of tension between organizations or make partnerships among companies from different countries untenable.

This article proposes that there are a number of factors which help to determine how employees react to foreign ownership. It calls into question the assumption that the larger the social distance or cultural gap between the national cultures of two merged organizations, the greater will be the potential for strain in the relationship between employees. The findings from our pilot study suggest contextual factors are extremely important mediators in crosscultural relationships. These factors influence how cultural differences are interpreted and whether they are viewed by employees as problematic. Indeed, they may even determine whether “ cultural differences” are identified at all. References 1. Hofstede, G. Cultures and Organization, McGraw-Hill, New York, NY, 1991. 2. Kanter, R. M. , “ Transcending Business Boundaries: 12, 000 World Managers View Change”, Harvard Business Review, Vol. 69, May-June 1991. 3. Hampden-Turner, C. , “ The Boundaries of Business: Commentaries from the Experts”, Harvard Business Review, Vol. 69, September-October 1991. 4. Lodge, G. C. and Vogel, E. F. (Eds), Ideology and National Competitiveness: An Analysis of Nine Countries, Harvard Business School Press, Boston, MA, 1987. 5. Kanter, R. M. , Applbaum, K. and Yatsko, P. , FCB and Publicis (A): Forming the Alliance, Harvard Business School Case Records, Boston, MA, 1993. 6. Kanter, R. M. Men and Women of the Corporation, Basic Books, New York, NY, 1977. 7. Westney, E. , Imitation and Innovation: T he Transfer of Western Organizational Patterns to Meiji, Japan, Harvard University Press, Cambridge, MA, 1987. 8. Starbuck, W. H. , “ Learning by Knowledge-intensive Firms”, Journal of M anagement Studies, Vol. 29 No. 6, 1992, pp. 713-40. 9. Haire, M. , Ghiselli, E. E. and Porter, L. W. , Managerial T hinking, Wiley, New York, NY, 1966. 10. Wuthnow, R. and Shrum, W. , “ Knowledge Workers as a ‘ New Class’: Structural and Ideological Convergence among Professional-Technical Workers and Managers”, Work and Occupations, Vol. 10, 1983, pp. 471-87.

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