The Impact of Cultural Differences on Mergers and Acquisitions: A Comparative Analysis through Case Studies

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Abstract. Against the background of rapid economic growth and the prevailing global trend of cultural fusion, the landscape of mergers and acquisitions (M&As) is rife with cross-border and cross-cultural transactions. This paper delves into the profound impact of cultural disparities on M&As in the context of the ever-accelerating globalized economy. It does so by conducting a comparative analysis of various cross-cultural M&A cases, with a primary focus on dissecting instances of M&A failures resulting from cultural divergences. This paper also offers a balanced perspective by incorporating a case study of a successful M&A that navigated significant cultural diversity. Through these analyses, it seeks to unearth valuable insights for both scholars and practitioners. This paper not only presents potential solutions for managing cultural challenges but also scrutinizes the hurdles that arise from integrating diverse cultures in cross-cultural M&As. The findings contribute to a nuanced understanding of the intricacies involved in M&A transactions in an increasingly interconnected world.

Keywords: Cultural Differences; Merger and Acquisition; Cross-Culture.

1. Introduction

Globalization is an intricate and multifaceted issue. One of the intuitive characteristics is that people commence the mutual exchange and utilization of their respective resources to attain greater benefits [1]. This phenomenon of resource juxtaposition and social redistribution is usually reflected in education, economy, talent, and so on. The large increase in transnational and cross-cultural M&A activities is also one of the trends of globalization.

In the 1990s, the contours of globalization started emerging, witnessing a rapid surge in the financial economy and a significant increase in M&As, notably involving numerous cross-border transactions [2]. However, according to extensive data and research statistics, most of these M&As have yet to be as successful as envisioned, and their benefits have fallen far below initial expectations. Based on the 1996 year's research of Charles and Gareth, the success rate of M&As has only reached a staggering 20%. The primary factor contributing to the failure of M&As is that the acquisition cost before M&As is excessively high. Meanwhile, internal culture integration after M&As is not an easy task, which shows that the investigation of cultural differences in M&As cannot be underestimated [3].

This paper encompasses two objectives. Firstly, taking three distinct types of cultural differences as examples, it thoroughly analyzes the impact of cultural disparities on cross-cultural M&As in the context of the pervasive economic environment of globalization. Secondly, this paper will also put forward reasonable suggestions for the phenomenon of cultural differences. However, in terms of alleviating conflicts brought on by cultural differences, the field of research and practical application in this area often involves significant unknowns and uncertainties. Therefore, this paper aims to underscore the critical importance of acknowledging the pivotal role of diverse cultures in influencing M&As. However, genuinely addressing this problem often requires extensive practical work in the future.

2. Theoretical Foundation

Culture is frequently defined as the collective set of beliefs, behaviors, customs, and values that characterize a specific social group. At the same time, it includes factors such as nationality, ethnicity, region, religion, and other socially defined groups [4]. The variations among these groups give rise to cultural differences. Culture is dynamic and undergoes transformations over time, influenced by advancements in technology and economic development. Culture is not homogeneous. Individual cultures are ubiquitous. Even in the same land, under similar educational backgrounds, cultural differences and beliefs can exist among individuals. This paper will mainly concentrate on the cultural differences arising from changes in nationality.

The term merger and acquisition (M&A) pertains to the amalgamation of a company or its significant business assets with those of other entities through financial transactions. With the economic boom brought about by globalization, a wave of economic liberalization has swept in, ushering in a multitude of competitors into the market. M&As have become a clandestine weapon for many companies for long-term survival and expansion. Mergers and acquisitions differ significantly even though they represent a particular corporate economic investment form. Mergers typically involve multiple entities combining their operations and consolidating resources under a single entity, whereas acquisitions refer to a specific company exercising control over the assets of another company [5].

3. First Failed M&A Case: Daimler and Chrysler

Daimler-Benz, established in 1926 with its headquarters in Stuttgart, Germany, originated as the world's first automobile factory founded by Karl Benz in Germany in 1883. Chrysler Corporation, founded by Walter Chrysler in 1925, is a renowned American automotive company. On May 7, 1998, Daimler-Benz and Chrysler Corporation officially announced their merger, forming the new entity known as Daimler-Chrysler AG. Daimler-Benz held a 57% stake in the new company, while Chrysler Corporation held the remaining 43%. The combined market value of the two companies after the merger reached an impressive $92 billion. However, nine years after this merger, the Chrysler subsidiary in the United States had been operating poorly, with the loss continuing to increase. Finally, this disastrous merger concluded with Daimler selling Chrysler to the U.S. private equity firm Cerberus Capital Management for $7.4 billion.

The unexpected failure of this merger belied the considerable theoretical optimism held by both the German and American manufacturers. They all believed that this merger would reshape the global automotive industry landscape, providing a theoretical model for extensive cross-border integration on an unprecedented scale. However, evidently, there were significant cultural differences between the two companies. The merger of Daimler-Benz and Chrysler needed to adequately consider the existence of cultural disparities, leading to substantial gaps and a lack of shared cultural foundation in their communication [6]. Eventually, the divergent management styles and leadership approaches stemming from national differences resulted in communication inefficiencies. The two teams disintegrated, culminating in a tragic outcome.

In the initial merger negotiations, both the Americans and Germans attempted to ignore the challenges posed by cultural differences, perhaps assuming that the uncertainties arising from cultural clashes were negligible. However, during the actual integration process, there were significant differences between the two countries in terms of working methods, leadership styles, and strategic planning approaches. These resulted in work efficiency far below expectations. Research and investigations show that the primary reason for these differences is that Germans exhibit a much higher degree of collectivism than American citizens [7]. Germans tend to lean towards authoritarianism, indicating their greater willingness to follow leadership directives rather than challenge authority [7].

This was a collision between a conservative German automotive company and a liberal American automotive company. Both parties may attempt to adapt to each other's habits, but human tendencies are ultimately challenging to change entirely. After several years of collaboration, different work habits and approaches to handling matters ultimately destined the two automotive industry giants to part ways.

Indeed, the Daimler-Chrysler merger was not inherently destined for failure. Mergers and acquisitions under different types of capitalism could yield significant benefits based on complementary assets [8]. Chrysler's expertise in sports utility vehicles and marketing innovation could make synergies with Daimler's high-quality strategic assets rooted in German vocational training and engineering systems [9]. However, the management of Daimler and Chrysler failed to achieve any form of synergies. This strategic error of the management was also one of the crucial factors contributing to the failure of this acquisition.

4. Second Failed M&A Case: TCL and Alcatel

TCL Group was founded in 1981 and was a globally recognized conglomerate in manufacturing intelligent products and providing internet application services. It also stands as one of the leading companies in the Asian television market. Alcatel, founded in 1898, led the way in telecommunications systems and equipment and the related fields of cables and components. It represents the heyday of French manufacturing. In September 2004, TCL and Alcatel formed a joint venture, TCL & Alcatel Mobile Phone Limited (T&A), which was a significant merger in China's mobile industry in the early 21st century. TCL Group owns 55%, while Alcatel holds 45%. However, the acquisition yielded little expected results, and T&A consistently operated at a loss. On May 7, 2005, TCL officially announced the acquisition of Alcatel's 45% stake through a stock swap, taking on the entire loss of 400 million yuan. Consequently, the joint venture was dissolved.

These companies initially allied to leverage each other's resources and technological strengths. With its dominant position in the Chinese market and the advantage of the lowest-cost manufacturing base in Asia, TCL partnered with Alcatel, a key player in Europe and Latin America with operations in over 130 countries [10]. After the alliance, TCL could explore new markets and tap into new customer sources. Meanwhile, Alcatel could leverage TCL's assembly expertise to optimize its supply chain to enhance customer satisfaction.

After the establishment of the joint venture, TCL dispatched 30 personnel to Alcatel, applying their traditional decision-making approach to integrate Alcatel. However, this management style needed to be more suitable for Alcatel. Alcatel pursued a more humane management style, while TCL leaned towards a more militarized approach. The clash in management systems and cultures led to a loss of credibility among Alcatel's employees and a substantial increase in turnover. Obviously, the differences in political systems and the advocated social values between China and foreign countries have led to distinct work habits, causing conflicts between Chinese companies and foreign stakeholders. However, a significant contributing factor to the weak governance is the need for more transparency within Chinese enterprises. Numerous Chinese companies need to engage more adequately with local media and communities [11]. This can easily lead to an asymmetry of information after the completion of the acquisition. On one hand, it affects the efficiency of the subsequent integration work between the two parties. On the other hand, it instills fear among employees due to the uncertainty in the decision-making process. These self-isolating behaviors create considerable obstacles for future collaboration and communication.

5. A Successful M&A Case: Haier Group and General Electric

Haier Group is a Chinese company founded in 1984. Initially, it started as a small refrigerator factory. Still, through long-term transformation and development, persistently focusing on user-centric principles, it had become a giant in the global home appliance manufacturing industry. General Electric (GE), established in the United States in 1892, is the world's largest multinational corporation providing technology and services. In 2016, Haier Group acquired and integrated GE's home appliance business for 5.61 billion USD, becoming the majority shareholder of GE Appliances.

Haier's acquisition of General Electric's home appliance business is based on several strategic objectives. Firstly, it aims to leverage the strong brand influence of GE in the U.S. market to expand into the global market. Secondly, this acquisition can enhance Haier's innovation capabilities by introducing world-class technology and research capabilities. Finally, this acquisition can significantly elevate Haier's position in the global market and establish its global supply chain.

This acquisition also faced similar challenges associated with other cross-cultural cases. GE prefers young employees who are creative and passionate, while Haier leans towards experienced and seasoned mature employees [12]. The two corporate management conflicts highlight the differences between Chinese and Western cultures. However, Haier did not handle the impact of cultural differences as passively as in the two examples above. After realizing the differences in management styles and cultural preferences between the two entities, Haier adopted the localization strategy. This strategy places significant emphasis on the acquired company's management philosophy post-merger, taking into account local business customs and values to ensure the successful integration of cultures [13]. In addition, Haier also customized its products tailored to the brand preferences in North America, better catering to the local demand for personalization. Overall, this is a successful overseas merger. By comparing the previous financial data, it can be observed a significant improvement in the company's various financial indicators. Particularly in 2017, metrics such as sales revenue, net profit, net return on assets, and other indicators attained an unprecedented level, clearly reflecting the synergies generated by the acquisition [14].

6. Discussion

The case analysis selected in this paper holds paramount importance in guiding subsequent works, aiming further to extend the evidence-based development theory into practical operations so as to put forward more widely applicable and influential suggestions. First, based on the examination of case studies, it is concluded that a comprehensive cultural background investigation before embarking on merger preparations is extremely critical. In this context, the term 'comprehensive' requires a multi-faceted assessment that goes beyond financial and operational parameters to understand the company's culture, values, and management paradigms. The promotion of such work not only encourages the spread of cultural sensitivity and fosters collective consciousness among individuals and organizations regarding the potential impact of cultural ideologies on business decision-making practices but also helps to ensure sufficient flexibility in the follow-up cooperation process, that is, the possibility of intervention, to adapt to a series of problems arising from cultural disparities. It thereby facilitates the alignment of future shared value objectives between enterprises and their employees.

Furthermore, in order to ensure that employees can promptly integrate into diverse cultural settings, companies should proactively implement cross-cultural training (CCT) programs to accelerate interactive and open dialogues, as well as collaboration efforts. CCT has been acknowledged as one of the means to augment cross-cultural interactions, which is of great significance for participants' three key skills, self-management, interpersonal communication, and intellectual literacy [15]. Gudykunst, Hammer, and Wiseman (1977) discussed six universally applicable techniques of CCT by testing participants' satisfaction in the U.S. Navy's Intercultural Relations (ICR) program in Japan [16]. The comprehensive approach of CCT proved to be effective in cultivating participants' positive attitudes towards outgoing culture. In particular, the guidance program for the future development of CCT provides more pragmatic action development insights at the end of the research. Gudykunst, Hammer, and Wiseman (1977) delineated the training process into three skills-specific stages, referred to as "Perspective Training", "Interaction Training", and "Context-Specific Training", collectively known as PIC [16]. Stage P centered on nurturing employees' cultural perspective, which functions as an intermediary psychological framework to promote the transfer of perspective and emotion between personal culture and target culture. This stage aims to optimize individuals' comprehension and adaptability to unfamiliar cultural situations, and initially realize the basis for efficient operation in foreign culture. Stage I underscores the application of the cross-cultural perspective constructed in Stage P to real interactions. These interactions are predominantly carried out in seminar communication, enhancing employees' cognitive awareness of their self-image and perceptions within the target culture. This stage serves to improve cross-cultural communication skills and employees' adaptability in a different cultural environment. The final stage C concentrates on effectively training individuals to navigate specific situations within the target culture. This stage primarily helps the employee improve information awareness regarding the target culture to proficiently match the individual with all the specific skills requisite for the task. Training methods such as knowledge transfer, behavioral coaching, and situational simulations may be employed during this stage.

Cultural integration is an ongoing process requiring companies to learn and adjust constantly. Behavioral practices should evolve as cultural understanding deepens and global contexts change. Simultaneously, establishing transparency in the decision-making process is imperative in the context of cultural differences, which contributes to cultivating trust and deepening mutual comprehension among diverse stakeholders, preempting potential disagreements and disputes. After the merger is completed, the company should also remain attentive to the psychological well-being of its employees. Consider providing appropriate material compensation to ease the psychological stress and anxiety that may be brought about by the merger and at the same time, eliminate the sense of distrust among employees. These efforts are instrumental in establishing a stable and constructive work environment, thus promoting the success of cultural integration and ensuring that employees are fully involved and committed to the company's future goals.

7. Conclusion

The paper begins with a fundamental review of the key concepts of cultural diversity and M&As. In the context of globalization, the field of cultural studies assumes a pivotal role in the organizational life, and this paper further demonstrates the determinative role played by cultural differences in M&A through three illustrative case studies. For companies planning cross-border M&As, the overarching goal lies in the genuine realization of cultural integration, underpinned by the assurance of sustained collaborative processes.

Nonetheless, it is undeniable that there are still numerous unresolved doubts in practical operation of CCT. It is essential to note that culture is a continuously evolving phenomenon, embodying the dynamic process by which groups of humans co-create and shape intricate experiences. Therefore, it is evident that culture, as a complex and multi-dimensional social construction, defies facile quantification and standardization, thereby contributing to the lack of empirical research support for relevant action guidelines and posing challenges for in-depth exploration. Moreover, many studies focusing on CCT often overlook the existence of individual culture. To sum up, cross-cultural workplace guidance needs additional theoretical research, especially supplemented by longitudinal experiments, in order to effectively identify and demonstrate whether CCT guidance retains its efficacy over time in addressing the challenges brought by cultural diversity. National heterogeneity and individual variances should be fully taken into account before the initiation of cross-cultural M&A training programs. Policymakers bear the responsibility of continuously adjusting training policies based on rigorous empirical scrutiny, and this adaption should be based on a nuanced understanding of the complexities inherent in culture. Furthermore, companies should institute a framework for sustained monitoring to effectively anticipate and respond the obstacles arising from the dynamism of culture. This proactive approach ensures timely adjustments to policies, aligning them with the evolving cultural landscape.

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