Undesired individual-level outcomes in cross-border mergers and acquisitions: A process approach

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Abstract

This study explores the processes that lead to undesired individual-level outcomes in the context of cross-border mergers and acquisitions (M&As). Based on the empirical findings from an in-depth longitudinal case-study that describes the unsuccessful integrative efforts between a German multinational company (MNC) and an Austrian service provider, we develop a process narrative. We then assemble the various events of the case-study in terms of cause-and-effect to present a generic model of post-merger integration dynamics (for absorption). The process description presents a holistic view of the processes and its relevant associated dynamics and raises the awareness of aspects that significantly impact the integration process, but whose dynamics have not been linked – e.g. identity and emotion. Based on this generic model we provide an explanation of why traditional attempts to integrate mostly meet with failure.

Keywords: cross-border mergers and acquisitions, post-merger integration, organizational culture, system dynamics, case-study analysis

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1 Introduction

Globalization of business has increased the prospects and pressures to engage in cross-border M&As (Hitt (2000)). They are seen as a strategic vehicle for achieving corporate aims. Yet evidence shows their lack of success. Porter (1987) argued that most cross-border ventures were bound to fail. KPMG found that while 17% of cross-border acquisitions created shareholder value, 53% ruined it (Economist (1999)). Failure rates of cross-border M&As vary from 50% to 83% (Lee (2003)). While a few favor cross-border M&As, a majority of those who have studied them tell of a darker social side in working for foreign-owned firms and report strong resistance by host country staff in international ventures (Thiederman (2003)).

Differences in organizational and national cultures, which manifest as diverse management attitudes and practices, have been blamed for the high failure rate (Buono, Bowditch and Lewis (1985); Morosini and Singh (1994); Weber (1996)). Poor culture-fit has become a much cited reason for M&A failure. Yet the relationship between culture and performance continues to confuse researchers as studies examining this link have produced often contradictory results (Cartwright (2005); Schoenberg (2000); Stahl and Voigt (2008)). In their conceptual article Teerikangas and Very (2006) attempt to disentangle some of the issues which may shed light on the current inconsistent research evidence and offer advice for future research. They argue that we must recognize the process dimensions of integration before being able to extract more accurate results on the culture-performance relationship and stress the importance of more longitudinal studies. By lacking a holistic view of the processes that bring success in integration, managers continue to repeat strategies with low success rates, misjudging the actual effects.

In this paper we explore the complexity of the integration processes. We start with an outline of the cross-border M&A and organizational culture literatures, and then define the gap we intend to fill. Next, we present the methodology and major empirical findings from a longitudinal in-depth case-study that shows the futile integrative efforts of a German MNC that bought an Austrian service provider. Data from this study are used to build a process description of the absorption mode of integration (the acquired firm is forced to adopt the acquirer's culture and identity). This description identifies interacting constructs that impact

the success of the integration process (e.g. organizational identification, antagonism, enforcement, autonomy removal). We analyze the model to expose its self-reinforcing nature. Finally, we conclude by describing the reasons for the persistence of resistance and managerial implications of the integrated process model.

2 Literature Review

2.1 *Research history of organizational culture and its implications for M&As*

Most scholars intuitively sense that cultural differences matter in M&A, but when they matter, under what conditions they matter, and how they matter are currently poorly understood (Stahl and Voigt (2008)). Cross-border M&As require the parallel management of national and organization culture differences as both have a significant effect. Organizations are embedded in national and societal cultures and the surrounding societal culture has an important external influence on organizational culture (Dickson, Aditya and Chokar (2000)).

Despite a growing number of articles on organizational culture, there is still no generally agreed definition of the concept. O'Reilly and Chatman (1996, 166) define organizational culture as *"a set of norms and values that are widely shared and strongly held throughout the organization."* Values play a crucial role in the way social institutions function (Sagiv and Schwartz (2007)). They define what is important; norms define apt attitudes and behaviors for members. Similar definitions were used by Rousseau (1990), Kotter and Heskett (1992) and Gordon and DiTomaso (1992). Schein (1985) described it as *"the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration."* Hofstede et al. (1990) found major differences in practices among people holding similar values in the same organization and that corporate culture involves the subsequent acquisition of organizational practices.

Interest in organizational culture was mainly driven by the claim that strong cultures predict corporate achievement (Hofstede et al. (1990)), a hypothesis based on the idea that highly motivated employees dedicated to common goals benefit organizations (Peters and Waterman (1982); Deal and Kennedy (1982)). The 'uniqueness' of organizational culture makes it a powerful source of generating competitive advantage (Ogbonna and Harris (2000)). Managers can use the homogeneity in behavior to control diversity.

A strong culture can positively affect a firm by creating a sense of unity among members of a firm; but in the M&A context, it lacks the needed flexibility and ability to adapt to a new

environment (Nahavandi and Malekzadeh (1993)). Consequently, it is unlikely to create shared structures and management systems from the best practices of both organizations once they are integrated (Haspeslagh and Jemison (1991)). Research has shown that the stronger the culture of the acquired firm, the less it will wish to change (Buono and Bowditch (1989)) – and so the less effective the integration (Cartwright and Cooper (1993)), resulting in increased resistance. A clash of merging cultures leads to lower commitment and cooperation (Buono et al. (1985)), higher turnover by acquired managers (Lubatkin et al. (1999)) and drops in the acquirer's shareholder value (Chatterji et al. (1992)).

In our study we explain why people at the acquired unit faced considerable pressure to conform to the values and management practices of the buyer. Employees of the Austrian service provider did not have a strong perception of belongingness to their own organisation at the beginning. They described their organisational culture as weak and not equally shared among the members. However, the pressure exerted on them led to a change in the perceived strength of their organizational identification. We show that not only organizations with strong corporate cultures lack the flexibility and ability to adapt to a new environment but that this also applies to organizations with weak identification in the context of absorption. Given that existing empirical research has failed to identify the factors that affect the performance of firms engaging in M&A activity (Stahl and Voigt (2008); King et al. (2004); Teerikangas and Very (2006)), we make an important contribution by identifying important constructs and showing under what conditions cultural differences might matter.

2.2 *Acculturation in cross-border M&As and the dynamics in culture change*

Acculturation in M&As is the outcome of a process whereby the beliefs and values of two previously independent firms "form a jointly determined culture" (Larsson and Lubatkin (2001, 1574)). It is not surprising that achieving acculturation represents a major post-acquisition challenge to acquiring firms (Larsson and Lubatkin (2001)). Some believe that success depends on the nature of acculturation attempted. The greater the level of cultural differences, the higher is the potential for culture-based conflict (Nahavandi and Malekzadeh (1988)). The degree of integration pursued should therefore be subject to this potential. Consequently, the deeper the attempted integration, the more intense is the attention required for successful realization (Shimizu et al. (2004)). The acculturation strategy shapes the amount of interactions between employees and influences the level of culture clash (Cartwright and Cooper (1992)). Managing acculturation is the critical link for M&A success (Bijlsma-Frankema and Costa (2005)).

Berry's (1984) model of acculturation defines four modes in which two groups adapt to each other and resolve emergent conflict: assimilation (one group adopts the others' culture and identity), integration (structural assimilation but little cultural or behavioral assimilation), separation (preserve one's culture and identity) and deculturation (lose cultural or psychological contact). Haspeslagh and Jemison (1991) introduced 3 integration strategies – preservation, absorption (Berry's assimilation) and symbiosis. However, this literature has not yet delved into the underlying process aspects.

For most scholars, organizational culture remains a stable and resistant force, rooted in cultural stability and unlikely to change (Hatch (2004)). A leader in diffusion process research – Malinowski – proposed that cultures influence and change autonomously, by reacting to each other. These must be understood as processes; not by direct reference to the parent cultures (Malinowski (1945, 80)). Later, Hatch (2004) argued that it is not culture per se that accounts for resistance, but acts of domination within cross-cultural relationships. In cross-border M&As, firms often face resistance and resentment when they try to impose their ways on other cultures as it conveys an aura of corporate colonialism (Begley and Boyd (2003)). Begley and Boyd (2003) showed that when combined with ethnocentrism, resulting ethnocentric corporate cultures stir local resistance.

Given the importance ascribed to acculturation in M&As, it is striking how little empirical evidence exists about the determinants of successful and unsuccessful acculturation. This may be due to difficulties in obtaining data which involve personally and politically sensitive subject matter (Larsson and Lubatkin (2001)). In our longitudinal case-study we identify the determinants of unsuccessful acculturation and show that pre-merger cultural attributes do not necessarily play the major role in determining post-merger acculturation. The identified integration processes in our study are responsible for the negative individual-level outcomes in the context of the cross-border M&A.

2.3 *Gap in literature and general criticism*

The measurements of the culture-performance relationship used in the literature have suffered from simplification leading to an overshadowing of underlying background processes. Most studies have been cross-sectional in nature (e.g. Slangan (2006); Van Oudenhoven and Van der Zwee (2002); Vermeulen and Barkeman (2001); Morosini et al. (1998); Krug and Hegarty (1997); Very et al. (1997); Very et al. (1996)). As a consequence, scholars have provided advice for managers mainly in terms of outcomes and aggregate behaviors – e.g. acceptance, measuring cultural fit, etc. despite the process nature of

integration. Cultural differences have also been treated as 'static forces' (e.g. Slangan (2006); Van Oudenhoven and Van der Zwee (2002); Morosini et al. (1998)). Yet integration efforts in M&As generally involve organizational changes (Teerikangas and Very (2006)).

The fact that only a few studies have looked into the drivers of the underlying process has led to a lack of progress in improving cultural integration. Very and Schweiger (2001), for example, looked into issues related to the different stages of an acquisition and obstacles typical for the entire acquisition process while Haspeslagh and Jemison (1991) focused on integration barriers. Such research has been summarized (Teerikangas and Very (2006)); although the acculturation perspective helps us to identify contingencies favorable to integration, it lacks a process-based approach to issues.

Some scholars take a constructionist perspective to the nature of cultural differences and link the problems arising in integration to issues about identity, sense-making and social conflict (Martin (1992); Gertsen et al. (1998); Kleppestø (2005); Vaara et al. (2006)). However, they overlook the dynamic linkages and outcomes that characterize integration. Consequently, the managerial approach to cultural integration is very narrow resulting in undesired outcomes like cultural clashes (Buono et al. (1985); Nahavandi and Malekzadeh (1988)), communication difficulties (Schweiger and DeNisi (1991)) and conflict (Blake and Mouton (1985)). There is little that links cross-cultural integration strategies to aggregated individual-level outcomes such as cross-cultural work alienation and resistance (Larsson and Lubatkin (2001); Brannen and Peterson (2009)). Our paper examines the following individual-level outcomes: (a) changes in the perceived strength of organizational identity, (b) perceived attempts to change individual identity – e.g. through a change in autonomy, (c) emotions arising and accumulating from (a) and (b), and (d) lack of adoption of the desired norms by individuals. The last two outcomes are seen as negative.

In addition, although cultural dynamics have been examined in great detail in the anthropological literature, management scholars have not used the resulting insights and findings. We believe a lack of awareness of the recursive dynamics, combined with the simple managerial strategies attempting integration, is a key reason for their persistent failure. Creating a process description will help readers gain (1) a holistic knowledge of the processes and its relevant associated dynamics, (2) an awareness of aspects that significantly impact the integration process, but whose dynamics have not been linked – e.g. identity and emotion, and (3) an understanding of why traditional attempts to integrate have mostly met with failure. We focus on the absorption type of integration strategy for two reasons. First, this strategy comes closest to duplicating the existing processes of the acquirer using the acquired resources.

Thus, it is seen as means to realizing synergy through economies of scale and scope. Second, this strategy best demonstrates the control and power of the acquirer over the acquired firm (Berry (1984); Haspeslagh and Jemison (1991)).

3 Method

In qualitative research, results from a first-order analysis may be the basis for a second-order analysis (Van Maanen (1979)) – e.g. theory development can be grounded in, and emerge from, first-order data. Here, the first stage of analysis (case-study) identifies the themes that impact M&A individual-level outcomes. Instead of using them directly to build an overall theoretical framework that separates out dependent and independent constructs, we link these themes by cause-and-effect relationships. Such a cause-and-effect map, done in the second stage (Process Description), provides a holistic view of the absorption mode of integration. We show that the constructs revealed from the case-study are well-accepted in the literature. This provides a solid basis for drawing general conclusions from the unique situation of the case-study. The third stage of the analysis applies tools of systems dynamics to the causal map produced at the end of the second stage. The purpose is to identify recursive relationships among constructs. We then predict their consequences. This method has been already applied by scholars (Repenning and Sterman (2002); Perlow, Okhuysen and Repenning (2002)).

3.1 *Case-study*

The case-study approach focuses on understanding the dynamics present within single settings (Eisenhardt (1989)) and can generate theory. We combine participant observations and semi-structured interviews. We use the case-study findings to describe the processes that breed employee resistance in a newly-acquired firm. As per Eisenhardt's recommendation, we avoid thinking about specific relationships between variables and theories as much as possible, especially at the outset of the process.

We focus on an Austrian service firm. It initially had more than 15,000 workers across five continents. A German MNC bought it in 2005 and initiated integration at once. Data was collected at three different points of time: just before the takeover, just after the takeover and three years after the takeover. In this time period we conducted 46 interviews. We got information about corporate cultural attributes, different management techniques within the firms, HRM practices and strategic approaches.

Three investigators collected data. Multiple investigators have two key benefits. First, they

enhance the creative potential of the study with complementary insights, adding to data richness. Their different perspectives provide varied insights from the data. Second, converging observations from many investigators lifts confidence in the findings (Eisenhardt (1989)). We rely on multiple sources of evidence to stress the rich context. Interviewees were encouraged to talk about their experiences to allow us to collect subjective opinions. By asking 'what', 'how' and 'why' questions we gained a rich picture of what was occurring in the organizations. Significant time was also given for participant observations. The ongoing interaction between the researchers and the subject helped the investigators gain a deep understanding of the processes and the dynamics of the two social settings. Forty of the 46 interviews were recorded and transcribed. The remaining 6 interviewees did not want their conversations to be recorded. Consequently, we took notes. We completed three reports with field notes and details of observations. We wrote down all our impressions to avoid sifting out what may seem unimportant.

The interviews were evaluated by means of a qualitative content analysis (Mayring (2000)). Inductive category development and deductive category application are the two central approaches of this data analysis method and were both followed, in order to avoid being overwhelmed by the sheer volume of unstructured data. In order to systematically, comprehensively, and exhaustively analyze our rich data, ATLAS.ti software was employed. Three coders were involved in data analysis and all worked with ATLAS.ti. Reliability was reached by coding first a sample of eight interviews independently and subsequently re-analyzing the same data together, discussing the results and reaching an inter-coder agreement on the codes and categories derived from the analysis. Coding rules were refined until the assessment suggested an adequate level of agreement.

A further essential component of grounded theory is the constant comparative analysis of the unit of analysis on the basis of theoretical similarities and differences (Glaser and Strauss (1967)). Following Glaser and Strauss's (1967) suggestions, we compared our data in three different ways: First, we examined the consistency of each single interview as a whole by comparing different parts of it. Second, the interviews conducted at the same point of time were compared among each other. At this stage, the various conceptual categories were compared and arranged in relation to each other. Third, the data obtained at each stage were aggregated into individual frameworks so that we could subsequently compare the categories and assess whether there are any differences in categories identified at different points of time.

4 Empirical Findings

4.1 *Differences in organizational culture*

Differences in organizational cultures of our informant firms had a major impact on employees' interactions. The Austrian firm allowed a high degree of flexibility and individual responsibility, creating a motivational climate that encouraged creativity and thinking outside the box, so as to make decisions beyond the core business. Freedom of choice and entrepreneurship were stressed. Risk-taking employees were rewarded and seen as great assets.

> "Well, here with this business-oriented thinking, this typical entrepreneurship people keep talking about, here you are not subject to so many rules and structures."*(Employee from the acquired Austrian firm)*

The firm also gave precedence to people over task completion by promoting a 'non-blame' organizational culture. Leaders had a collaborative and diplomatic approach; they engaged professionally with problems. Individual opinions were highly valued. The corporate culture was not strong; employees identified more with their job-type than the firm. Four main aspects of their organizational culture were a collaborative and diplomatic approach, innovation, openness to diversity and freedom of choice. Homogeneity was enforced with respect to these global corporate components. Simultaneously, leaders managed their team members and their immediate tasks heterogeneously, leaving room for cultural diversity and responsiveness to local needs. Austrian team leaders were consensus-oriented, valued open communication and consistently encouraged their employees to solicit work-related ideas and suggestions. The participative leadership style added to the knowledge creation process in teams by aiding exploration and exploitation. Also, they emphasized team unity and a sense of belonging. In doing business with overseas subsidiaries they considered prevailing working practices and adopted local managerial culture in employee interactions, showing a high level of context-sensitivity.

In contrast, the German acquirer, characterized by hierarchical structures, had strict rules and a rigidly defined code of conduct. Deference to centrally-determined firm practices was strongly emphasized. They assumed that HQ practices could easily be adopted in host-country subsidiaries and transferred to newly acquired firms. Desired change was usually enforced top-down with great emphasis on expatriates to achieve success, with the neglect of locals.

Autonomy was not decentralized; integration was stressed more than differentiation. Teams were managed according to corporate principles, allowing limited room for cultural adaptation. This decreased expatriates' sensitivity in cross-cultural interactions. Employees had to comply with centrally-set corporate behavior norms and hold similar work values.

> "Here we have a unified corporate culture and we expect our employees to adjust to our corporate values." *(Executive from the German MNC)*
>
> "We let them know that it is nice to have their own culture in their country, but at work they need to live our corporate culture."*(Employee from the German MNC)*

Further, cultural differences between Austrian and German representatives led to misperceptions. German staff was seen as very direct while criticizing, had a very authoritarian decision-making style, and emphasized traditional male orientations of achievement, ambition and performance. The Germans tried to reduce uncertainty for themselves and create stability in the new venture by enforcing their corporate rules and practices for conducting business while structuring the subsidiary. The pressure to conform led to critical incidents and stereotype-based thinking; it damaged joint efforts and cooperation. These problems made Germans show obstinacy, stubbornness and a certain degree of hardness so as to gain control over unexpected events. Also, Austrians reported that German managers emphasized 'a one-way' communication style; they were not willing to listen to Austrians whom they perceived as unorganized and thus less reliable.

4.2 *Acquirer's integrative efforts and their consequences*

After the initial uncertainty and anxiety about the future we observed the emergence of a positive attitude towards the post-merger organization. Several interviewees reported that they were euphoric about being acquired by a leading industry player. They expected greater market access, new opportunities, and an enhanced learning curve to exploit their core competences so as to create the synergies promised in the acquisition. To communicate its current strategy and future goals, the acquirers invited managing directors from the target firm to participate in a 3-day event at its German HQ. Austrians expected this to be the first step towards integration.

However, this event was the first attempt by the acquirer to demonstrate its superiority and power. Instead of creating a positive attitude towards the acquirer, the event led to increased uncertainty among Austrian executives about their future. They did not see how the promised synergies would be developed. They felt that the acquirer was not interested in benefiting

from their core competences. It seemed that the Germans already had the state of the art technology and market access. Apart from inattention to the future of Austrian employees in this meeting, one-way communication led to increased uncertainty and prejudices among Austrian members. Equality was highly valued in their corporate context; so they expected mutual arrangements to rest on the willingness of both parties. However, the acquirer pushed for a convergence of actions towards the same institutional references; it wasn't concerned about meeting Austrian members' expectations. The emphasis was on conformity, on transferring corporate practices and rules of behavior to Austrians. The 3-day event described above was the only formal attempt by the Germans to communicate its goals and objectives to the Austrians.

What seemed to be an invitation to accept was soon perceived as an order to implement. Moreover, some of the new corporate norms referred to unfavorable practices in the cultural context of the acquired firm. The six global corporate components stressed by the Germans were conformity, precision, accuracy, punctuality, result orientation, and professionalism. Results were more important than the efforts undertaken. If the bottom line did not show expected results, the person responsible for the accomplishment of the task was blamed. For the Austrian firm, adaptation meant going against what was conceived as desirable, appropriate, functional and legitimate in the context of its corporate culture which stressed freedom of choice, flexibility, innovation and a 'non-blame' culture. The pressure to conform to the acquirer's rules and regulations led to a change in organizational identity among Austrians who did not feel integrated into the post-merger organization's desired culture. They felt forced to accept its rules and regulations. The cultural differences, when subjected to a strong pressure to conform produced increased stress, negative attitudes toward the merger, less cooperation, and lower commitment. Further, poor reporting systems and a lack of communication led Austrians at different levels in the organizational hierarchy to feel a complete loss of autonomy; the change to new habits and procedures did not allow them to do what they did in the past. The restrictions in autonomy was significant for employees both with high levels of responsibilities and at lower levels in the organizational hierarchy since autonomy removal was opposed to the norms of entrepreneurship, flexibility, and individual responsibility that were essential components of the Austrian firm's culture. Separating the control of work (by Germans) from execution by Austrians caused a host of social dysfunctions. The negative individual-level outcomes created a feeling of disorientation and helplessness. Initial euphoria gave way to anxiety and uncertainty about the future. The processes described above led to an accumulation of negative emotions that froze any major

progress towards internal change; it resulted in lower commitment and cooperation from Austrian employees.

> "We felt that we had to resist all these attempts of colonialism from their part. The impatience and the unfulfilled expectations led to an accumulation of negative emotions and the motivation curve went down… People were forced to comply with new rules, and this resulted in resistance, rage and hostility towards the acquirer." *(Executive from the Austrian technology and service provider)*

The resulting rage and frustration towards the acquirer led to an increased desire among Austrian staff to leave the German MNC. They did not understand how their work would be linked to organizational processes and did not feel integrated into the work community. A big mistake by the German executives was to move part of the Austrian employees to one of their existing facilities in Vienna and to place their own people in the Austrian HQ building. This gave the Austrian executives the chance to start trading valuable information about new job opportunities and market trends. Instead of doing their tasks to contribute to the success of the acquirer, they engaged in counter-productive behavior by applying for new jobs, undertaking preparations to establish new enterprises and taking advantage of the acquirer's knowledge databases open to them. In the first three years after the acquisition more than 60% of the Austrian firm's staff left.

We believe that this case-study provides a good example of negative individual-level outcomes of poorly managed cross-border M&As. The following section provides a more formal cause-and-effect description of the processes that led to the undesired outcomes.

5 Process Description

5.1 *Overview and Acquirer's Goal*

Figure 1 is an overview of the main themes in our process description. These themes are endogenous (internal to the organization) and contribute to the integration process. The details in the *subsequent* figures represent how constructs influence other constructs in the processes. The main aim of the process description is to create a model of the generic dynamics inherent in pursuing absorption.

Insert Figure 1 here

In cross-border acquisitions, expatriate managers are usually responsible for integration (Child et al. (2001)). This also applied to our study. The German firm employed expatriates

during the M&A process. As outsiders, expatriates may take a negative view of certain aspects of the target firm's culture. The assumptions of 'strong cultures' encourage expatriate managers to change the corporate culture of the acquired firm, in order to reduce cultural differences. They seek to remove or minimize the gap by moving the existing norms towards the desired norms. In our case-study, we have explained the main differences between the corporate cultures of the acquiring and acquired firms.

Expatriate managers pursue absorption from a control rather than an evolutionary perspective. At least two kinds of control are available to managers: technocratic control and social control (Kärreman and Alvesson (2004)). Technocratic control focuses on tangible measures like incentives. However, incentives may not be effective for those who aim to maintain their cultural norms. Expatriate management may therefore seek compliant behavior through social control which focuses on ideology, norms and related intangible measures. The German management's tactic was to seek an alignment of norms (Begley and Boyd (2003)) which are based on values, instead of seeking a change in values (which is very time-consuming). For example, upon arrival at the acquired firm, German managers at once introduced the HQ corporate norms to the acquired employees by trying to fix common norms about work hours, appropriate preparation for meetings and so on.

Figure 2 captures this narrative, showing the existing norms observed in the Austrian firm as *Existing Norms*. The norms desired by the German MNC are denoted as *Desired Norms*. The difference between them is expressed as *Gap in Norms*. Given the limited time-frame available to German managers to make the M&A deal a success, they applied some form of pressure on the acquired employees to meet their objectives. This is designated *Pressure to Conform.*

Insert Figure 2 here

The larger the gap between *Existing Norms* and *Desired Norms*, the greater is the pressure exerted on the employees to conform towards the *Desired Norms* (Larsson and Lubatkin (2001)). However, the manner in which German managers applied this pressure deprived the Austrian employees of psychological safety (Schein (1996)). Psychological safety is a construct that has roots in early research on organizational change. Schein and Bennis (1966) discussed the need to create psychological safety for individuals if they are to feel secure and capable of changing. In our case the Austrian employees' perception of future career and interpersonal threat increased and threatened their psychological safety inhibiting their willingness to change. The situation deteriorated even more due to the uncertainty caused by the differences in organizational culture. The acquired employees were expected to learn new

organizational norms, adapt to them and behave accordingly even though they did not agree with them. However, based on their actions expatriate managers seemed to implicitly assume that pressure would deliver *Changes in Behavior* over time in the desired direction; if these changes accumulate they would change *Existing Norms* and reduce the *Gap in Norms*, thereby achieving the goal of expatriate management. As *Existing Norms* reflect any accumulated change in behavior, we conceptualize it as a 'stock'[3]. As further validation, note that *Existing Norms* are inertial and change relatively slowly with respect to the efforts that seek to change them. Hence, this figure represents the expatriate management's expectation of how employee norms would change over time.

In episodic change, a new or desired state replaces the existing state (Weick and Quinn (1999)). In this kind of change, increasing pressure will eventually unfreeze the change target to create a period for 'revolutionary' change where replacement is supposed to occur. However, it is not so easy to set up common norms when these are seen as illegitimate by the acquired firm's employees. In such situations, the logic of (a lack of) attraction substitutes the logic of replacement; change occurs through adaptation and adjustment rather than replacement. People change to a new position if they are attracted and inspired to it. This depends on moral power, attractiveness of the change agent, freedom of the change target and the role of choice in the transformational process (Weick and Quinn (1999)). The effect of these factors in facilitating change is abstracted by the construct *Openness to Change*; it has a direct impact on *Changes in Behavior*. Shortly after the acquisition, the Germans had a favorable image which means these factors worked in their favor. When the Austrians experienced contrary evidence, these factors impeded their change.

Expatriates' interpretations and understanding of cultural values and norms present in the host-country and in the acquired firm may diverge from those of local employees (Sanchez et al. (2000)). In such cases, expatriates' efforts to make things easier and solve superficial problems by changing the acquired firm's norms result in no tangible progress in the desired direction. Instead, critical incidents ensue such as the outcome of the 3-day event in Germany. Researchers and managers label such lack of perceived progress as resistance (with obvious negative connotations) – e.g. host-country workers will show resistance to change (Hofstede (2001)). Resistance is the result of inter-culturally generated stress – "acculturative stress" (Very et al. (1996)). Such acculturative stress is associated with lower commitment and cooperation on the part of the acquired employees and is more likely to occur in cross-border

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[3]A stock is a variable that accumulates and depletes as time passes. This concept has long been applied in the management literature (Dierickx and Cool (1989)). See Sterman (2000) for more details.

acquisitions than in domestic ones (Brannen and Peterson (2009)). Such views have led to a perception that resistance inheres in the culture of the acquired firm.

The rest of our account fleshes out constructs that are relevant to cultural identity. Under conditions of inadequate systematization[4] (Weber (1968)), we show how they drive process outcomes which are usually known as resistance. Hence, resistance is not culturally inherent; rather, it indicates incomplete or poorly managed dynamics.

5.2 *The Impact of Pressure*

We have seen that *Pressure to Conform* arises from the acquirer's desire to change *Existing Norms* in a preset direction. A direct effect of using such force is an increased awareness of cultural differences on the part of the acquired firm's employees. Pre-existing cultural differences between the two firms led to increased *Uncertainty* about the future (Kogut and Singh (1988); Cho and Padmanabhan (2005)) – see Figure 3. Here, uncertainty arose due to Austrian employees' fears about how they would bridge the gap in norms, their future job status and the relevance of their skills. Austrians implicitly desired to cling to the norms they were used to, and the uncertainty about the impending, undesired change led to *Stress* (Schuler (1982)). As a reaction to the continued stress, Austrian employees re-evaluated their organizational identity (Haslam and Reicher (2006)). Over time, the perception of this identity continued to become stronger. Note that the left part of Figure 3 deals with aspects related to organizational identity while the right part addresses those related to personal identity.

Insert Figure 3 here

5.3 *The Role of Emotion*

Since the proposed change was seen as harmful, all future notices, decisions, and parleys were attended by emotion sharing (Goleman et al. (2001)). The acquirer's expatriate managers were targeted by adverse and hostile emotions (Eriksson (2004)). Negative emotions towards the German firm accumulated to raise the level of the stock named *Antagonistic Emotions* (see Figure 3). As emotions feed on themselves, all existing or hoarded *Antagonistic Emotions* contribute towards a faster build-up (Lewis (2002)). A high level of *Antagonistic Emotions* severely deters, even paralyzes any significant progress towards reflection or internal change at the group and individual levels (Amiot et al. (2007)).

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[4] Schroeder (1992) explains the process of systematization as the process of elaborating a belief-system so that it constitutes a coherent whole and its tenets are extended to apply to all aspects of everyday life (in Hatch (2004)).

Raging emotions are depressive or negative. Even faulty logic that negates proposed changes is accepted; it spreads very rapidly to other group members (Eriksson (2004)). As a result, there is little '*Openness to Change*'. Yet, new learning is feasible only if both cognition and emotions are on hand (Goleman (1996)).

Since cognition, emotions and actions are intimately interlinked (Eriksson (2004)), intense emotions obstruct desired change. Once these kind of unhelpful emotions have built up, it is very difficult to get rid of them in a short period. A quote from an Austrian executive who stated that "[we] are forced to comply with new rules and this [coercion] results in resistance, rage and hostility" shows how forced conformity helped negative emotions to accumulate.

5.4 *Impinging on Autonomy*

We have already seen that *Pressure to Conform* increases the awareness of organizational identity, a collective aspect of a person's identity. We now examine the effect of *Pressure to Conform* on one important individual aspect of identity: personal autonomy (see Figure 3).Increasing the pressure to conform can be seen as enforced change by individuals. If the introduction of new norms is experienced as pressure, then the desired implementation is felt as 'enforcement'. Workers may see it as coercion. Such coercion puts pressure on staff to defend their existing norms. The actual effect of *Pressure to Conform*, when meted out through enforcement, is to change the state of personal autonomy. Stinchcomb and Ordaz (2007) give examples of the difficulty in merging organizational cultures that differ mainly on the degree of autonomy that members enjoy in daily tasks. Given its function, autonomy is seen as a domain that signals personal identity. Hence, it becomes very important for expressing personal identity (Berger (2005)).

An imposed change in autonomy violates the existing, implicit employer-employee psychological contract. If there is insufficient reciprocation in forming the new psychological contract, reaction to an imposed change in the degree of autonomy (Hatch and Shultz (2002)) may be expressed as hostile emotions. The higher the initial level of autonomy, the larger is the felt loss.

5.5 *Implications of Reciprocity*

Reciprocity[5] forms the basis of psychological contracts (Rousseau (1995)) at the workplace. It can be assumed even at the start of a relationship (Meeker (1971)). Such

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[5]Reciprocity refers to the degree of agreement about reciprocal exchange, given that commitments made by one party obligate the other to provide an appropriate return (Dabos and Rousseau (2004)).

reciprocity was expected from the German management by the Austrians. Within the Austrian firm, there was a history of 'give-and-take' relationships. Because equality was highly valued, Austrians expected mutual arrangements to rest on the willingness of both parties. Yet the acquirer expected a convergence of actions towards their desired institutional references. This lack of reciprocation was felt as '*Deviation from Reciprocal Expectations*' and resulted in members '*distancing*' themselves emotionally (and in other ways) from the goals of the expatriate management (Scheck and Kinicki (2000); Folkman and Lazarus (1980)). The continued lack of an appropriate response by the German firm led to the build-up of the stock '*Frustration*' (Argyris (1957); Jassawalla et al. (2004)), which is an emotion based on a lack of reciprocity.

The quote of an Austrian who stated that "unfulfilled expectations led to the accumulation of negative emotions… and the motivation curve went down" shows how deviation from reciprocal expectations causes frustration to build-up. If members believe that their existing norms are more legitimate relative to the new norms, this will increase the speed of the distancing. It works in the opposite sense as well. If existing norms are seen as less rightful than new norms, then distancing may be slow or not happen at all. This dynamic is denoted by '*Relative Legitimacy of Own Norm*' in Figure 3.

The accumulation of frustration and resentment might result in acts of aggression or apathy (Argyris (1957)). Consequently, there is little openness to change (denoted as '*Openness to Change*'). Any hope of progress towards absorbing the desired norms becomes unrealistic. As long as there is a lack of openness, there is little explicit or implicit evaluation of one's own norms (Christopher and Bickhard (2007)) and, therefore, almost no hope for individuals to change. Expatriate management may focus on the lack of change in *Existing Norms* and set in motion further *Pressure to Conform* and *Enforcement*. However, this reinforces the change in autonomy and its resulting reactions such as antagonism and frustration (Argyris (1957)).

6 Analysis of Loops

While developing the process description in the previous section we laid out the relationships among relevant constructs by connecting them with arrows. Each is a constituent of the socio-cultural dynamics of absorption. To get an idea of the dynamic consequences (e.g. behavior through time) at a holistic level, we examine the integrated structure[6] using

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[6]Structure or causal structure refers to the collection of constructs and causal links connecting these constructs in a cause-and-effect diagram (Figure 3).

system dynamics procedures. Its basic logic is that behavioral patterns sustained through time are an outcome of the underlying cause-and-effect structure. Such structure consists of recursive feedback mechanisms called loops[7]. By identifying and analyzing the loops present, we can predict the outcomes expected with the passage of time (Sterman (2000)) and work out their implications.

We re-visit Figure 3 in order to illustrate the analysis of loops. Note the letters 'S' and 'O' ascribed to each arrow. 'S' means that the effect is in the same direction as the cause. If there is an increase in the cause construct, there will be an increase in the effect construct. If there is a decrease in the cause construct, there will be a decrease in the effect construct also. 'O' indicates that the effect moves in a direction opposite to the cause. If there is an increase in the cause construct, there will be a decrease in the effect construct, and vice-versa.

Using these 'S' and 'O' interpretations, we see that an increase in *Pressure to Conform* leads to an increase in *Uncertainty*, which leads to increased *Stress*. Continued stress results in accumulated strength of the *Perceived Organizational Identity*. The strengthened identity, when pressured to conform to something external, increases the negative emotions generated within individuals. These accumulate and manifest as antagonistic feelings towards expatriate management. Accumulated antagonism reduces *Openness to Change*, which reduces or even reverses any change in norms. Therefore, a lack of *Change in Behavior* prevents *Existing Norms* from making any progress towards *Desired Norms*, and may even prompt it to go in the opposite direction. With the passage of time, there is no reduction of *Gap in Norms*, which prompts the expatriate manager to persist with *Pressure to Conform*.

An increase in the initial cause (e.g. *Pressure to Conform*) has had the effect of further increasing itself, as the overall result of the different cause and effect links encountered. This is a 'reinforcing' loop. Such loops are typical drivers of growth and of collapse. In our case, the loop promotes the build-up of antagonistic emotions that result in prolonged resistance which prevents attainment of the intended goal. Similarly, we see that an increase in *Pressure to Conform* leads to an increase in *Enforcement*, which leads to an increased *Change in Autonomy* (a decrease in the level of autonomy in our case). A continued increase in deviation from the initial level of *Autonomy* expresses itself through *Deviation from Reciprocal Expectation*, as felt by the Austrian employees. We have described earlier how this leads to

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[7]A loop is a closed cause-and-effect chain involving two or more constructs. It must satisfy the condition that one is able to return to any arbitrarily chosen starting construct by proceeding only along arrows that point away from the focal construct – i.e. one moves from a construct at the tail of an arrow (the 'cause'), towards the construct at the head of the arrow (the 'effect'), in a consistent and repeated manner. Further details can be found in Sterman (2000).

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increased *Distancing* and a build-up in *Frustration*. Increased frustration reduces *Openness to Change*, with consequences that we have described earlier.

Our overall insight from Figure 3 is the presence of at least two reinforcing feedback loops that dominate the causal structure. Most expatriate managers see the challenge simply as reaching a set goal (Figure 2). In reality, the consequences of managerial action towards attaining this set goal create other reinforcing loops that diminish openness to change on the part of the acquired firm's employees. This reduction happens due to induced changes in organizational and personal identity which trigger negative emotions that continue to accumulate, given the reinforcing structure. An important characteristic of such reinforcing structure is that on becoming active, it tends to aggravate in an undesired direction. This makes intervention more difficult with the passage of time. However, further analysis of the constituents in the reinforcing structure can suggest potential intervention strategies to be implemented at an early stage.

7 Discussion and Conclusion

This study explores the processes that lead to undesired individual-level outcomes in the context of cross-border M&As. Based on the empirical findings from an in-depth longitudinal case-study that describes the unsuccessful integrative efforts between a German MNC and an Austrian service provider, we develop a process narrative. We then assemble the various events of the case-study in terms of cause-and-effect to present a generic model of post-merger integration dynamics (for absorption). This study makes two important contributions to the post-merger integration literature and one contribution to the organizational culture literature.

According to King et al. (2004, 188) *"post-acquisition performance is moderated by variables unspecified in existing research …. An implication is that changes to both M&A theory and research methods may be needed"*. First of all, we contribute to the existing body of knowledge by assembling a process model based on the constructs identified in our longitudinal case-study. These constructs remain either partially specified in existing research on M&As or, if specified, are only used as independent variables in the quantitative studies. Yet these constructs have moderating or mediating relationships with other constructs as illustrated in our three figures. We show the inherent complexity of the integration processes which indicates why simplistic approaches to representing cross-border M&A integration have led to conflicting results. This is an attempt to address the shortcoming expressed by other researchers (Teerikangas and Very (2006); Stahl and Voigt (2008)).

If we generalize from our case-study, expatriate managers are sent to newly acquired subsidiaries to change their work practices and bring them in line with those of the parent organization. When managers pursue integration with such abstract objectives in mind and give less importance to individual-level consequences, it can trigger undesirable psychological responses such as loss of psychological safety (Rousseau (1995)) and alienation (Brannen and Peterson (2009)). It can also cause undesirable social responses such as resistance (Ford et al. (2008)) and the acquirer's actions may be seen as corporate colonialism (Begley and Boyd (2003)). On the other hand, change at the individual level is facilitated by the attractiveness of the change agent and freedom of the change target (Weick and Quinn (1999)). Yet, despite these warnings, managers frequently resort to various forms of coercion in order to increase conformity and undertake actions that result in failure to meet their original aims.

In order to explain this phenomenon, we map the chain of consequences that links actions taken by expatriate managers to the reaction of recipients (e.g. antagonism, frustration, decreasing openness to change, distancing). Our map arranges the various and continuously re-enacted cause-and-effect links involving action, perceptions, identities, and emotions. It reveals an overall causal structure consisting of various recursive mechanisms (called loops), many of which are self-reinforcing. The main reinforcing loops involve antagonistic emotions and frustration, arising from struggles regarding organizational and personal identities. Our analysis shows how the displayed structure of self-reinforcing loops is triggered (e.g. pressure to conform creates an undesired emotional reaction which in turn motivates managers to put more pressure to conform). The idea of reinforcing feedback is to blame for a variety of organizational pathologies (Merton (1948); Hall (1976)).

This still leaves us with the question of why managers trigger these self-reinforcing loops in an inapt manner. As illustrated by our case-study at the beginning there was some willingness to change toward the desired norms. This led the acquirer to assume that applying pressure will be effective. However, the complex dynamics involving the interaction of the identified constructs led to a rise in antagonistic emotions and a decline in *Openness to Change*. Managers remained unaware of this. By applying additional pressure they believed to decrease the level of negative emotions and increase the *Openness to Change*. Yet the consequence of their action was an increased resistance on the part of the acquired employees. Implicit to this is reciprocal causality: emotions were not just effects of expatriate managers' actions, but also drove further managerial actions like more pressure. The increased pressure and persistent antagonistic emotions mutually reinforced each other. This inhibited any

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desired change in behavior.

Furthermore, we have shown that organizational cultural differences are not the sole cause for the lack of cultural fit or failure to integrate. Our findings point to the critical issue of how managers address differences in organizational culture. More specifically, it is about how they manage the various interactions among the various process constructs that will determine the impact of initiatives taken towards integration. While the literature mentions identity, emotion (Elsass and Veiga (1994)) and fear and uncertainty (Van Dick et al. (2006)) as generic consequences of M&A failure, our process model indicates precisely how managerial actions, uncertainty, identity dynamics and the accumulation of emotions affect and reinforce each other in a systemic manner.

Secondly, we use an innovative approach to analyze these dynamics. We capture the benefits of a longitudinal research design in our process model and use system dynamics techniques to reveal the outcomes of the integration processes. System dynamics has traditionally been used to analyze dynamics in social science in different contexts (Richardson (1999); Forrester (1961, 1969)) but to the best of our knowledge not a single study in the M&A literature has applied this methodology.

Finally, our third contribution to the organizational culture literature shows that the perceptions of a given organizational culture change over time. These perceptions evolve with the pace of changes and the mid-course results obtained. The dynamic nature of the M&A processes described in our case-study accounts for the mediating impact of the presented constructs and the managerial action on the culture-performance relationship. While a strong culture can be a positive asset for a firm creating a sense of unity among its employees, we show that in the M&A context it lacks the needed flexibility to adapt to a new environment. This is in accordance with Nahavandi and Malekzadeh (1993), Buono and Bowditch (1989) and Sorensen (2002). Moreover, we show that a weak organizational culture can change to a strong organizational culture in the context of cross-border M&As. The Austrian employees' desire to hold on to the norms they were habituated to led to a new awareness of organizational *identity* and the consequent strengthening of their corporate culture, bringing into play the stereotype-driven mechanism that prevents the merger of two strong cultures (Vaara et al. (2003); Kleppestø (2005)). While these two authors assume an enduring difference in identity due to pre-existing cultural differences, our evidence and process model points to change in the perception of organizational identity which took time to increase to a significant level, before the negative consequences of group identity began to take effect. Further, in contrast to Cartwright and McCarthy (2005) who suggest that differences are

socially created to legitimize old identities, here we draw attention to the altered perception of an existing identity. Initially the Austrian company's employees were looking forward to the new M&A since they expected to gain new knowledge and skills. Their organizational identity was not that strong. However, after the attempted integration the same Austrians felt that their norms and procedures were as good as those of the German firm, if not superior. Based on the negative experiences they perceived their organizational identity in a clearer manner that carried more significance. These contrasts point to the importance of organizational identity as a key construct that influences the severity of conflict and resistance. A low awareness of organizational identity implies that affected members will not use identity in an adversarial manner; it weakens the possibility of identity issues creating significant consequences. The mechanisms exhibited in our model indicate that ability to manage awareness of organizational identity is critical to a successful outcome. These findings parallel the literature on collective identity (Owens (2010)).

Our situation is based on a cross-border M&A. An interesting attribute of this case-study is that it involves two parties with lower cultural distance at the national level but significant differences in organizational cultures. While the Austrian firm's employees identified more with their job-type than their organization (characterized by a high degree of flexibility and individual responsibility), the German acquirer preferred strict rules, had a rigidly defined code of conduct and emphasized conformity with centrally-determined organizational practices. This incompatibility in organizational cultures led to numerous critical incidents and negative individual-level outcomes, implying that differences in organizational culture have potential consequences as significant as the consequences caused by differences in national culture. These findings are in accordance with the findings from an acculturation perspective (Larsson and Lubatkin (2001)).

Inevitably, there are several limitations to our study. First, we relied on a single-case-study analysis. Multiple in-depth case-studies give a stronger base for theory building (Yin (1994)), since propositions derived from several cases are more deeply grounded in varied empirical evidence (Eisenhardt (1991)). Secondly, we examined the individual-level outcomes in the context of a cross-border M&A between two firms, one characterized by a strong and the other by a weak corporate culture. Studying individual-level outcomes in diverse organizational contexts represents an interesting avenue for future research. Finally, Austria and Germany belong to the Germanic cluster (House et al. (2004)), and thus, are characterized by similar cultural values and practices. Looking at the processes of integration between firms from different cultural clusters could offer additional important insights and strengthen our

understanding of the prevailing individual-level dynamics in the context of cross-border M&As.

For researchers, it is certain that studying individual-level outcomes in different organizational contexts represents an interesting and broad avenue for future research. Further, this initiative points to the prospects available in developing theory in cross-cultural management that takes into account the micro-foundations of culture. In addition, insights into managing these micro-foundations will be very useful for organizations going through transitions. It is clear that such studies should seek to develop knowledge so that practicing managers are aware of the consequences both at the individual and systemic level.

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