Managing cultural integration in cross-border mergers and acquisitions

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MANAGING CULTURAL INTEGRATION IN CROSS-BORDER MERGERS AND ACQUISITIONS

Daniel R. Denison, Bryan Adkins and Ashley M. Guidroz

ABSTRACT

Cross-border M&A has become one of the leading approaches for firms to gain access to global markets. Yet there has been little progress in the research literature exploring the role that culture may play in the success of these ventures. Poor culture-fit has often been cited as one reason why M&A has not produced the outcomes organizations hoped for (Cartwright & Schoenberg, 2006). Cross-border M&A has the added challenges of having to deal with both national and organizational culture differences. In this chapter we review the literature on cultural integration in cross-border M&A and provide a framework designed to help manage the integration process throughout the M&A lifecycle. This framework presents culture assessment and integration as a crucial component to reducing poor culture-fit as a barrier to M&A success.

Mergers and acquisitions (M&A) have become a central part of most corporate growth strategies, and an increasing portion of that M&A activity now spans national borders. Indeed, beyond a certain scale, one might say that all M&A is now cross-border M&A. For example, even a merger

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between two large American corporations such as HP and EDS requires an integration plan that affects operations in many countries. Furthermore, the success of the merger depends not only on the integration of operations at the center where the national culture is presumably the same, but also on the integration process in many locations around the world where the national cultures differ from that in the center. Despite this trend, relatively little research has focused directly on cross-border M&A, and even less has addressed the topic of cultural integration in cross-border deals.

This chapter explores these issues by first reviewing the existing literature on cross-border M&A, and then presenting a framework that highlights some of the important dynamics in the cultural integration process. This analysis is then used to pose both a set of research questions for future study and a set of practical recommendations for managing cultural integration in future cross-border mergers.

UNDERSTANDING CROSS-BORDER MERGERS AND ACQUISITIONS

Cross-border mergers and acquisitions (M&A) are a large component of global foreign direct investment (FDI) activities (United Nations Conference on Trade and Development [UNCTAD], 2006). Cross-border M&As are often used as a means for gaining entry into a foreign market, a method for engaging in a dynamic learning process, or a value-creating strategy (Shimizu, Hitt, Vaidyanath, & Pisanto, 2004). Although there are many similarities between cross-border M&As and within-border M&As, the international scope poses additional challenges to the cultural integration process (Hofstede, 1980; Shimizu et al., 2004). Acquiring companies outside of one's own country carries what Zaheer (1995) called a "*liability of foreignness*" – the costs incurred by a firm operating in a foreign market in addition to what a local firm would incur. Cross-border M&As also have the added challenge of *double-layered acculturation* where national culture must also be integrated in addition to organizational culture (Barkema, Bell, & Pennings, 1996). Despite these challenges, cross-border M&As continue to be a popular business strategy. The financial value of M&A activity has steadily increased from the late 20th century and into the present decade. Global FDI activity peaked at US $1.7 trillion during the fiscal year of 2008, with cross-border M&As accounting for US $707 billion (UNCTAD, 2010).

One challenge inherent within the M&A literature that we reviewed for this chapter is the fragmentation of the research across disciplines. Researchers in finance, strategy, organizational behavior, and human resources have all studied M&A from different perspectives. Each field has produced a considerable amount of research delineating the factors that lead to the success or failure of M&A. Poor culture-fit has been an oft-cited reason by researchers from many different disciplines, albeit without much statistical evidence (Cartwright & Schoenberg, 2006). In recent years, researchers have begun to develop more comprehensive assessments of the role of organizational culture in the M&A process (Cartwright & Schoenberg, 2006; Stahl & Voigt, 2008). One review concludes that the study of culture in M&A is still in its infancy and that current research is too inconsistent to support clear conclusions about the positive or negative role that culture can play during M&A (Teerikangas & Very, 2006). These authors make several propositions about the culture literature in the M&A field and conclude that (i) culture is a multilevel variable that includes organizational, industrial, functional, national, occupational, and professional cultures; (ii) these cultures are interconnected and present a dynamic challenge to organizations in the M&A process; and (iii) the quality of the firm's integration strategy will influence the effect that culture has on firm performance (Teerikangas & Very, 2006). They conclude their paper stating that "instead of asking if 'yes or no' cultural differences impact the performance of M&A, researchers should focus on 'how' do they impact the performance of M&A" (Teerikangas & Very, 2006, p. 46). We agree that culture does play a key role in the M&A process and that more research needs to be conducted to understand "how" cultural integration effects M&A performance. We also contend that the outcomes could be improved if culture is positioned as a central component of the M&A process from the beginning.

To help illustrate the multilevel nature of the cross-border cultural integration process, consider the example of the merger between Finnish Merita Bank and Swedish Nordbanken described by Piekkari, Vaara, Tienari, and Santti (2005). This merger experienced many cultural integration challenges due to the decision to adopt Swedish as the corporate language. This decision had a disintegrating and fragmenting effect among employees, particularly because it disadvantaged those Finnish employees who did not speak Swedish. This decision negatively impacted performance appraisals, language training and management development, and career paths and promotion of native Finnish speaking employees who could not operate as well in the Swedish-language environment (Piekkari et al., 2005). The authors write that the "chosen corporate language is likely to send an implicit symbolic message regarding the division of power between the merging parties'' (Piekkari et al., 2005, p. 331). In this situation, the decision to adopt Swedish as the corporate language sent an implicit signal that the needs of Finnish employees were not at the forefront of managements' attention. This also struck a deep chord with Finnish employees, since Finland was ruled by Sweden for nearly 500 years, up until 1809; and, thus there is a long history of the Swedish business elite requiring Finns to speak Swedish in order to survive economically.

The Finnish–Swedish merger also brings to mind the importance of communication with employees, particularly those employed at lower levels or within front-line positions (Budhwar, Varma, Katou, & Narayan, 2009). Pioch (2007) and Larsson and Lubatkin's (2001) case studies of United States, United Kingdom, and Swedish cross-border M&As highlight the importance of low-level employee integration. As an example, Pioch (2007) discovered that a management-imposed corporate culture was not well-received by all employees within a UK-based retailer that was acquired by a larger international corporation. Employees consented to the company values, but overall cultural integration was not achieved (Pioch, 2007). Larsson and Lubatkin (2001) also observed similar findings in their study of 50 cross-border and domestic M&As in the United States and Sweden. They stress that integration should include a balance of company sponsored socialization activities, such as introduction programs, training, cross visits, retreats, and celebrations, as well as allowing for employee autonomy to create a joint organizational culture (Larsson & Lubatkin, 2001).

Several additional themes emerge from the research literature that are of particular interest for cross-border M&A. These themes include (i) the firm's previous experience, in M&A activity in general, and in their previous business activity within the target country; (ii) the similarity in national culture between the host and target company; and (iii) the integration strategies adopted during the M&A process. These variables can all impact the success of cross-border M&As.

Experience Counts

Researchers have shown that both prior experience in M&A activity and prior experience within the target country can increase the frequency and success of subsequent cross-border M&A activities (Barkema et al., 1996; Finkelstein & Haleblian, 2002; Haleblian & Finkelstein, 1999; Vermeulen & Barkema, 2001; Very & Schweiger, 2001). Using organizational learning theory as a framework (Levitt & March, 1988), Collins, Holcomb, Certo, Hitt, and Lester (2009) reasoned that as firms engage in M&A activity, either domestically or internationally, they learn a great deal about what is needed to make an M&A successful and use that experience to pursue additional international M&A targets. Using a sample of Fortune 500 firms, they found that prior domestic and international acquisitions influenced the likelihood of acquisitions in foreign markets by US-based firms. They also found that prior international experience and prior experience within the target country were stronger predictors of subsequent international acquisitions, generally, and acquisitions within a target country, specifically (Collins et al., 2009). Similar patterns have also been observed in the Chinese business market; equity joint ventures (EJVs), which were once the primary vehicle for foreign firms to enter the Chinese market, have decreased over the years, giving rise to more M&A activity (Xia, Tan, & Tan, 2008). Nonetheless, firms entering into EJVs in China learned a great deal about how to conduct business within that marketplace, making it more likely that firms would engage in M&As for their subsequent business ventures. Thus, previous M&A experience prepares firms for the challenges involved in making a merger work. Firms that already have specific experience within a target country will already be familiar with the legal and regulatory requirements of that country, for example, and will not be held back by their learning curve.

Which is More Important: Similarities or Differences?

A second line of research unique to cross-border M&As in particular is understanding the effect of differences in national culture. Cultural familiarity theory argues that firms are less likely to invest in organizations in culturally distant countries, and subsequently have poorer performance postintegration (Lee, Shenkar, & Li, 2008; Li & Guisinger, 1991; Shenkar, 2001). The resource-based view of the firm, in contrast, hypothesizes exactly the opposite: that more culturally distant M&As will actually be more successful because the cultural differences enhance potential synergies between the two partners (Chakrabarti, Mukherjee, & Jayaraman, 2009). The research on this issue, however, has been inconclusive. Datta and Puia (1995) found that cultural distance had a negative effect on subsequent shareholder wealth of the acquiring firm, whereas Chakrabarti and colleagues (2009) found a positive effect of cultural distance on firm performance 36 months after integration. Slangen (2006) argues that it is not the distance between the cultures that impacts performance but the level of integration that the firms seek to achieve. For example, using a sample of Dutch acquisitions across 30 countries, Slangen (2006) found that higher levels of integration negatively impacted firm performance as cultural distance increased.

Understanding the Choices for Integration Strategy

This research on the cultural distance between countries reminds us that these cultural differences need to be viewed in the context of a more general approach to integration. For this, we look to the classic typology developed by Mirvis and Marks (1992). They viewed integration in terms of the degree of change required by the acquiring firm and the acquired firm. This typology distinguishes "stand alone" mergers that require little change by either firm, from "absorption" mergers that require fundamental change in the acquired firm, but little change in the acquiring firm, from "reverse acquisitions" that require a high degree of change in the acquiring firm as they adopt the ways of the acquired firm. Finally, they distinguish these from "best of both" mergers requiring substantial changes in both firms, and "transformations" that require more fundamental change for both firms (Fig. 1).

Mirvis and Marks go on to elaborate the options for integration outlined in Fig. 2. As two firms go from being separate entities in a holding company

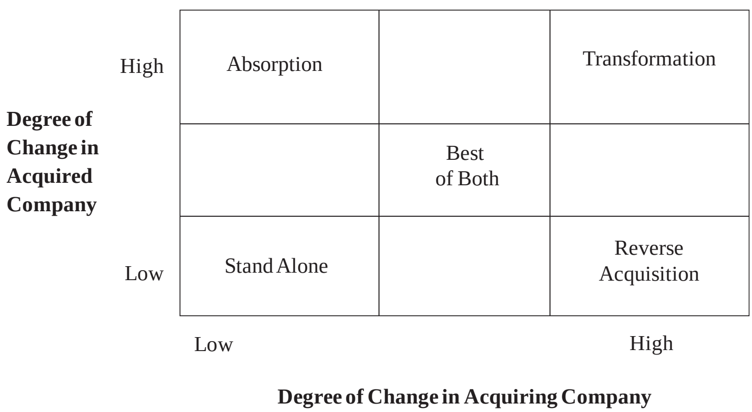

Fig. 1. Different Types of Mergers. *Source:* Mirvis and Marks (1992).

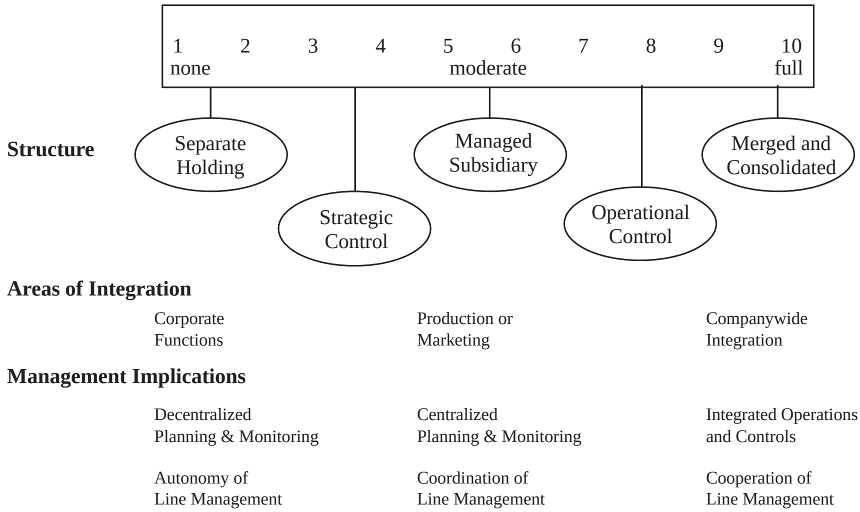

Fig. 2. How Much Integration? *Source:* Mirvis and Marks (1992).

with little interdependence to being fully merged and consolidated, they have series of intermediate choices.

Like the typology in Fig. 1, this framework helps to clarify two points: First, this framework makes it clear that there are many different approaches to choose in the integration process. The degree of integration and the speed of integration are, in most cases, well within the control of the leaders of the acquiring firm. The biggest problems often come when the choices, and their consequences, are not understood clearly from the outset. Mergers that began as "absorptions" but turned into "reverse mergers" as they unfolded are likely to encounter problems. Or, mergers that were presented in the beginning as a "merger of equals" in order to disguise the fact that one (or both) firms was trying to dominate have generated some spectacular failures. Making a clear choice, with full understanding of the consequences, and then clearly communicating this throughout the organization seems to be a prerequisite for success.

Second, the Mirvis and Marks framework also poses a key dilemma in planning the integration process in any merger: Integration requires a lot of resources. But, at the same time, the creation of new dynamic capabilities requires integration. Thus, combining two organizations into one holding company requires minimal resources. But, in turn, it can also not be expected to generate any new dynamic capabilities. A full transformation with integrated operational control has the potential to create many new dynamic capabilities, but it will not be cheap!

This dilemma is compounded when a merger spans national boundaries. The added complexity of national differences adds a third dimension of cultural distance to the Mirvis and Marks matrix presented in Fig. 1 and underscores the point that the quality and quantity of organizational resources that can be devoted to integrating an acquisition will be a key determinant of its success. How much complexity is the acquiring organization capable of managing?

In addition to these basic integration strategy decisions, it is also important to consider the integration process itself. Integration is a multistage process. In the next section, we consider the role that organizational culture can play during each of these stages, and how cross-border M&As in particular can add both increased opportunity and increased complexity.

MANAGING THE CULTURAL INTEGRATION PROCESS IN MERGERS AND ACQUISITIONS

A number of approaches have been proposed for managing postmerger integration across borders. Quah and Young (2005), for example, prescribe a five-year timeline that divides postacquisition activity into four phases, beginning with very slow absorption for the first year postacquisition and accelerating until the two firms are fully integrated. Similarly, our model in Fig. 3 views integration as a multistage process in which organizational culture plays an important role at each stage. Considering cultural issues early in the M&A process can increase the likelihood of a positive outcome. A crucial, and often overlooked first step, is to begin the M&A process with an understanding of how M&A activity fits with the culture and growth strategy of the organization. Beginning here ensures that cultural issues remain on the table through the acquisition and integration process rather than emerging toward the end when an integrated and unified organization is desired.

Growth Strategy

The starting point in managing the cultural integration process is to consider the role of M&A in the organization's growth strategy. Researchers often

Fig. 3. A Process for Cultural Integration in Mergers and Acquisitions.

consider the M&A event itself in isolation, rather than considering that the merger may be just one part of a larger growth strategy (Barkema & Schijven, 2008; Kusewitt, 1985; Salter & Weinhold, 1979). Thus, the key to success is not to consider the merger in isolation, but rather to consider the M&A activity within the broader context of the evolution of the organization.

Culture is often not considered until later in the M&A process, once the deal is complete. However, because "culture clashes" are often blamed for the failure of M&As, it is important that organizations have a clear understanding of their own culture at the beginning of this process when M&A is a primary component of their growth strategy. Having insight into the level of clarity and alignment that exists within one's own firm regarding mission and strategy, customer needs, internal processes, and expected behaviors and practices, for example, allows for a better assessment of cultural fit as potential targets are considered. This activity can also be beneficial in identifying the cultural traits that the organization would like to retain or develop moving forward, as they seek out organizations that might fit within their growth strategy. Assessing the organization's cross-border capabilities for managing cultural complexity is a particularly important part of this process. A broad-based assessment of the knowledge and capabilities required to move effectively into a new region can help identify both opportunities and limitations.

Assessing a firm's existing culture as part of the growth strategy process should also include an assessment of the capability of the leadership and their ability to manage cultural complexity. Kavanagh and Ashkanasy (2006) evaluated the effect of leadership and change management strategy on M&A integration in three organizations and found that managers responsible for driving the merger process were not equipped with the necessary change management skills to ensure success. M&As are not isolated business activities (Kusewitt, 1985; Salter & Weinhold, 1979), and sophisticated change management skills are needed as well as a clearly communicated vision from the leadership in the firm (Kavanagh & Ashkanasy, 2006; Waldman & Javidan, 2009).

Henkel's 2006 acquisition of Dial provides a helpful example of an acquisition that fits in well with a carefully considered growth strategy that took into consideration the cultural evolution of the corporation. Henkel, the leading German consumer products firm, has been on a decade-long transformation moving from a dominant German and European perspective with a strong base in the chemical industry to a global consumer products firm capable of managing brands that compete head-to-head with firms like Unilever and Procter & Gamble. The $2.9 billion acquisition of the American icon Dial was a key step in the globalization of their home care and personal products businesses. This acquisition also gave Henkel a much stronger base in North America, with 25% of their sales now coming from the United States of America. In addition, this acquisition also gave greater global exposure to many of the established Dial brands.

Potential Targets

When considering a range of potential M&A targets, a firm will typically gather an array of data and information. Depending on the specific growth strategy an M&A target might support, that information may include opportunities to quickly expand product lines or move into new geographies or perhaps to eliminate a competitive threat. As information is collected regarding the potential target's operations, it is also important to consider the expected degree of integration that the merger or acquisition will require. Will it be a holding company that is allowed a great deal of operating independence and thus less intensive cultural integration? Is it being absorbed into the acquiring firm in a way that will require significant change for the acquired firm? Which parts of the acquiring organization will be most influenced by the acquisition? Will the merger or acquisition require the transformation of the cultures of all firms involved?

Other factors to consider for the success of cross-border M&As include the firm's previous business experience outside the borders of their country. Previous experience within a foreign environment, either through partnerships, joint ventures, or M&As, has been shown to increase the likelihood and success of later M&A activity (Barkema et al., 1996; Finkelstein & Haleblian, 2002; Haleblian & Finkelstein, 1999; Vermeulen & Barkema, 2001; Very & Schweiger, 2001). By the same token, the acquired firm's experience counts, too, both with regard to M&A in general, and in regard to their experience with the national culture of the acquiring firm. Firms with previous joint venture activity in China, for example, had already moved up the learning curve on how to conduct business within that country and were more likely to engage in successful M&A activity within China for their subsequent business ventures (Xia et al., 2008). Identifying potential targets might include, for example, compiling all of the foreign locations the firm has worked within and evaluating which of those markets would be best to target.

Due Diligence

During the due diligence period, a target firm has been identified and leaders of the respective firms begin sharing financial and legal information to guide the decision regarding the potential benefits and liabilities of the merger. This is an opportune time to investigate the culture of the target organization and identify similarities and differences between the two firms. During the due diligence phase of Twentieth Century Advisors acquisition of Benham Capital Management Group, for example, the two firms exchanged corporate values statements that revealed that they both shared some of the same guiding principles (Marks & Mirvis, 2001). This made the subsequent integration of the two firms much easier as they already had shared perceptions on corporate values and behavior. Thus, the due diligence phase is a critical stage in the M&A process, and a time when cultural due diligence should be central within the overall due diligence process.

Including human resource or organizational development experts within the M&A team is crucial to ensuring that cultural assessment is not overlooked (Marks & Mirvis, 2001). Harding and Rouse (2007) recommend that all organizations take proactive steps to evaluate the culture of organizations they are considering acquiring and suggest that M&A teams either conduct interviews or use a cultural assessment tool to gather information. Developing a detailed understanding of how the leaders and employees in the firms develop strategies and goals, engage with the marketplace, and reward behaviors will offer critical insights regarding the potential synergies and areas of conflict that might arise during the cultural integration effort. Due diligence with respect to the cross-border management capabilities of both firms is particularly important at this stage.

As another example, during the due diligence phase of Dow Chemical's 1999 acquisition of Union Carbide, the 25-person integration team did an assessment of their perceptions of the culture of both organizations. They also did a careful comparison of the perceptions of the Dow members of the integration team with the Carbide members of the integration team. The convergence of the perspectives of these two halves of the integration team was taken as a clear indication that the integration team had reached a consensus regarding the strengths and challenges of the two parts of their future organization.

Cross-border acquisitions often have a way of turning from "absorption" to "reverse acquisition" in the acquired firm's home country as the merger unfolds. The view from HQ may regard ownership as the most important aspect of control, or may see the adoption of global processes and procedures as the most important objective, and may not appreciate the realities of the business on the ground, and the importance of these activities for building the corporation's presence and brand in the new marketplace. It is extremely important for these potential dynamics to be anticipated by the integration team.

Cultural Integration

Larsson and Finkelstein's (1999) case study research provides some of the earliest documentation on the importance of postacquisition integration to the success of a merger. In their analysis, integration was found to be the single most important predictor of synergy realization in the M&As they studied. Interestingly enough, their findings seem to apply equally well to both within-country and to cross-border mergers. They hypothesized that cross-border M&As would negatively affect organizational integration, positively impact the potential for combination in the merger, but increase employee resistance. The results, however, showed no relationship between cross-border M&As and increased employee resistance or a decrease in organizational integration, but did show a positive relationship with combination potential, a precursor to positive synergy. Thus, integration seems equally important for both within-border and cross-border M&As, but cross-border M&As do seem to provide increased opportunities for expanding new market access or promoting complementary globalization synergies. As mentioned previously, the decision to adopt Swedish as the company language in the Merita Bank–Nordbanken merger had long-lasting effects on Finnish employees (Piekkari et al., 2005). But national culture does not always have to be a barrier to integration. Slangen (2006) argues that national culture only hinders M&A success when acquisition companies are too tightly integrated into the acquirer. More research is needed in this area, but the growth strategy of the firm will largely influence the integration strategy that is adopted.

There are a number of factors that can affect postacquisition integration. Epstein (2004) suggests that successful integrations include five components: a coherent integration strategy, a strong integration team, frequent communication, speed in implementation, and measurement alignment across all departments to gauge success. Provided that some culture data has been collected during the due diligence phase, this information can be used by leaders and integration teams to create clarity and alignment among the employees regarding direction, processes, and expected behavior. Leadership team alignment is also important to assure that common messages and priorities are communicated, and that relationship-building activities and role-clarity efforts are implemented. If the due diligence phase does not include a detailed examination of the respective cultures, the period just after closing and prior to the integration activities should be used to gather important data about how the respective organizations operate. That data highlights the differences and possible synergies of the firms and is used to proactively facilitate the culture integration process.

As an example, Fig. 4 includes an analysis of our culture data from a merger in the petrochemical industry.[1] The acquiring firm, in this case, is an American petrochemical firm that has acquired a German speciality

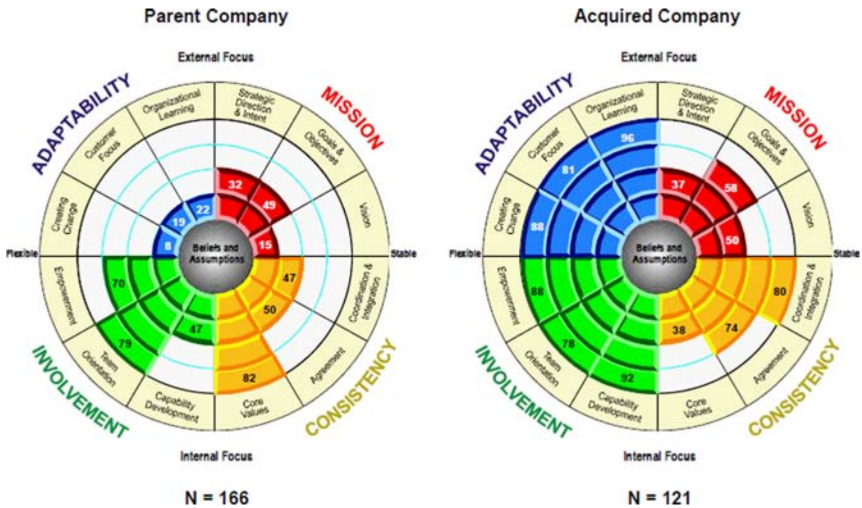

Fig. 4. Comparing Culture Data from the Two Firms.

chemical company. As these data show, these two firms had a highly complementary set of strengths and challenges that posed a unique set of risks and opportunities for the newly combined business unit. This analysis also presents a classic contrast that highlights the innovation opportunities available when a large, mature organization acquires a smaller, more dynamic firm as a part of their growth strategy.

Unified Organization

In addition to the postmerger integration activities, research has shown that employee identification with the consolidated organization is important for M&A success (Creasy, Stull, & Peck, 2009; Zaheer, Schomaker, & Genc, 2003). Initial discussions about "how we are different" and "how do we identify and select best practices" are replaced by discussions regarding the "next practices" that will be used as the combined firm moves forward. Vaara, Tienari, and Santti (2003), for example, describe a metaphor exercise used in a Finnish–Swedish merger as one approach for unifying organizational team members after a merger. Their approach focuses on exploring the construction of "us" versus "them" images and forming an image of a common future shared by all employees (Vaara et al., 2003). Activities that focus on creating a shared identity will bring culture to the forefront of the integration process and can help to prevent fragmentation. Creating a strong shared identity is a complex process in cross-border mergers. Denison, Xin, and Zhang (2009) describe the efforts of GE Healthcare to build up their anesthesia business in China. The core of GE's technology came from their acquisition of the Finnish company, Datex-Ohmeda (D-O) in 2003. GE entered the Chinese market in 2007, through the acquisition of Clinical Systems Wuxi (CSW), a local Chinese firm that had created their own line of anesthesia equipment, modeled on D-O technology. GE recruited a Finn, Matti Lehtonen, who had lived in China for 25 years and had worked with some of the D-O founders in the past, to serve as managing director. The task faced by Lehtonen and his team was to integrate three different cultures – the GE corporate culture with a strong emphasis on global scale and world-class process control, the D-O culture, with strong emphasis on technology leadership in the high end of the anesthesia market, and the CSW culture, with their emphasis on an entrepreneurial approach to the value segment of the fast growing Chinese market.

Lehtonen's approach to this situation was to pursue a "vision-led integration" that involved all employees in a series of local town hall meetings as they sought to define one common identity among these three organizations that combined three different national and corporate cultures. This case is a strong reminder of the complexity of cross-border integration and the importance of having a leadership team capable of dealing with cultural complexity.

Develop and Sustain

As the merged or acquired firms become a single operating entity, it is important to continue to develop and sustain a culture that drives performance and aligns the people in the organization with the strategies developed. If multiple M&As are a large part of a firm's growth strategy, more radical organizational development activity may be needed in order to realize the gains from the M&As. Barkema and Schijven (2008) found that organizations that engaged in major restructuring after subsequent mergers were able to make better use of the synergistic potential of their past mergers. Restructuring in these organizations often involved reducing organizational inefficiencies by combining subunits with duplicate functions. They suggest that organizational restructuring should be considered as a second phase of postacquisition integration to be deployed when an organization is engaged in frequent M&A activity (Barkema & Schijven, 2008).

Efforts to develop and adapt the organizational culture to the new business make-up will ensure organizational alignment as well as help maintain a culture that promotes high levels of firm performance. Understanding the culture that has been created, learning from previous acquisition and integration activity, and defining how M&A fits into the growth strategy of the organization will allow for informed choices for future M&A activity.

The mergers that created Algeco Scotsman provide another useful case in point. Algeco Scotsman is the world leader in modular space and storage solutions. Its creation in 2007 was the result of a series of acquisitions in North America and Europe. Algeco was purchased by the UK-based investment firm TDR Capital in 2004 and was headquartered in France with operations in 18 European countries, including Belgium, the Czech Republic, Estonia, Finland, France, Germany, Italy, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, and the United Kingdom. Acquisitions began in 2005 with the purchase of UK-based Elliot Group, followed by Wraith plc in early 2007. The last acquisitions in 2007 were US-based GE ModSpace and Williams Scotsman International.

The cross-border M&A merger of Algeco Scotsman is unique in several respects. First, the merger of Algeco with Williams Scotsman illustrates the potential of a cross-border merger to create complementarity. Both organizations were the leaders in their own regions of Europe and North America and were merged together to become the global leader in the modular space industry. Second, this M&A was orchestrated by a private equity firm. TDR Capital is a private equity firm with a successful history of conducting global transactions and investments. TDR Capital perceived the modular space business as an industry with high potential for diversification and growth and sought to create a global leader through the formation of Algeco Scotsman (TDR Capital, 2010). The business case for the merger of Algeco with Williams Scotsman was primarily to create a global business leader, and also to leverage the scale of the two organizations, by capitalizing on existing supply chains, and the skills of their respective staff through the sharing of business best practices.

The Algeco Scotsman merger also raises an interesting perspective on the power dynamics when both organizations are controlled by a private equity firm. In Mirvis and Marks (1992) terms, this merger was a transformation – extensive integration and change occurred at both organizations. Thus, a concerted effort was needed to resolve differences between the two relatively equal organizations and integrate them. But successful "merger of equals" are exceedingly rare (Hogan & Overmyer-Day, 1994; Zaheer et al., 2003).

However, in this case, neither Algeco nor Williams Scotsman struggled to become the dominant partner since they were both under the direction of TDR Capital. This example may offer some hope for ‘‘merger of equals’’ deals, at least if both are subordinate to a common owner.

Early integration efforts focused on creating the signs and symbols to signify a unified company, such as changing the name of the company on the global headquarters in Baltimore, Maryland, United States, creating a single internet and intranet site, and integrating HR, finance, and data reporting systems. A global conference was held for top leaders from both legacy companies to facilitate integration of top management and to illustrate to the leadership the shared commonalities between them. The global recession that followed the close of the Algeco Scotsman merger provided a sense of urgency around the integration process, but full integration is still an on-going process three years later. Interestingly enough, national culture is not perceived to be as big a challenge in the Algeco Scotsman merger as is the organizational culture. Comments about differences in national culture are always to be expected, but the business culture and the values that drive each organization often take longer to discover.

The framework that we presented in Fig. 3 has offered an outline of the cultural integration process that serves to keep the cultural factors inherent in a cross-border merger on the agenda throughout the process. Keeping the cultural factors on the agenda from beginning to end is always the first step in successfully managing their impact on the integration process.

DISCUSSION

Many organizations leave the cultural issues underlying an M&A deal on the back burner and neglect them until they catch on fire and burn down the house. Managing cultural integration may be difficult, and the best practice guidelines may be ambiguous, but the pattern of failures is usually clear: They most often occur when the cultural issues, both at the national level and at the firm level, are continually positioned as less important than the financial, operational, and strategic issues. In that environment, issues over cultural differences can grow until they begin to threaten to impact these basic business fundamentals. The three practical recommendations that we offer for avoiding the pitfalls of cross-border M&A are relatively simple to state and relatively difficult to actually implement.

Our first recommendation is that executives give serious consideration to the level of experience that they bring to the table in any deal that they consider. As we have seen in this chapter, many forms of experience are relevant in a cross-border merger: general M&A experience, general global experience, as well as specific experience in the geographies, industries, and firms involved. A serious assessment of the relevant experience and capability of the leadership teams on both sides of the deal are essential to success.

Our second recommendation concerns one of the key aspects of organizational and leadership capability: The capacity to deal with multiple levels of complexity. National cultures, organizational cultures, occupational cultures, and business unit cultures all come flying at the organization at the same time. A keen understanding that even the best, rational business logic in the world is filtered through the sensibilities of a multitude of social identities before it motivates anyone to action or consensus must guide the decision-making process at every step in a cross-border merger.

Probably the most interesting research finding summarized in this chapter is the contradictory finding that the similarity of two national cultures can either be an asset or a liability depending on the way in which the integration process is managed. The complementarity offered by mergers such as Henkel Dial or Algeco Scotsman are clear examples of the potential of cross-border mergers to drive a corporate growth strategy. But, in both examples, the firms paid close attention to the quality of the integration process. Thus, this is our third recommendation: The quality of the integration process is a clear indication of the likelihood of success, and a quality integration process must pay close attention to cultural factors.

Our recommendations for M&A researchers interested in cultural integration in cross-border M&A also includes three main points. The first, closely linked to our practical recommendations, would be to increase the focus of researchers on the dynamics of the integration process. With few exceptions, the existing research does little to elaborate best practice for the integration process. Better integration is advocated and several researchers have shown that it can lead to more successful performance. But a typology of integration options that updates or complements the classic Mirvis and Marks framework and outlines the key choices still has not been presented.

More research on the role of M&A in a corporate growth strategy would also be useful. Organic growth and growth through acquisition are often presented as alternative strategies, rather than complementary strategies. In our experience, corporations that are driven to an M&A

strategy because they have failed at organic growth are not likely to succeed. In contrast, the most successful M&A-led growth strategies always seem to create organic growth in their new acquisitions. But little research directly addresses the interplay between organic growth and growth through acquisition.

Finally, most of this chapter has been concerned with M&A with their origins in mature Western firms. In contrast, it is clear that the biggest challenges of the future will come when the acquiring firms come from emerging markets and make acquisition in mature markets (Kumar, 2009). Arcelor Mittal, Lenovo IBM, and Vale INCO all provide fascinating examples of the dynamic future of cross-border mergers.

NOTE

1. These results are from the Denison Organizational Culture Survey. For more information on this survey, please visit our website, www.denisonculture.com.

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