

National Cultural Distance and International Acquisition Performance

Michael Akanni and Mohammad Ahammad

Abstract—This paper investigates the implications of national cultural distance on international acquisition performance, involving companies from England. It proposes recommendations for the managers of English companies in how to manage these differences effectively. In general, findings indicate that the differences in national culture obstruct integration capabilities, bringing about a negative indirect effect on acquisition performance. From these findings, our recommendations are established, which suggest that in order to succeed, management styles and communication strategies need to be adapted to suit the target firms culture. In addition trust must be developed amongst all members in order to reduce any resistance to change.

Index Terms—GLOBE index, international acquisitions, national culture, performance.

I. INTRODUCTION

Despite the recent economic downturn, cross border acquisitions remain popular strategies for English organizations, wishing to achieve corporate growth. Over the past decade, companies from the UK, involving England, continue to be highly active international acquirers, evident from the total value of transactions reaching £50.8 billion as recent as 2011 [1]. Yet, regardless of current trends, there has been increasing acknowledgment of the poor performance of many cross border transactions. Reference [2] reported that "64% of all cross border mergers and acquisitions do not produce the expected benefits, whilst more than 50% do not even repay the investment". Whilst numerous factors are attributed to these failures, reference [3] states that the existence of national cultural distance has often been cited as a major reason for these outcomes. Consequently, an "us versus them mentality" arises, creating the potential for social conflict" [4]. Therefore, if differences between national cultures are among the main reasons for problems in international acquisitions, the main question that arises is what can be done to deal with these problems.

Previous M&A studies, involving English companies, have already reported on national cultural distance and its impact on performance. However, most of these studies have been very selective, exploring activities with those companies mainly from developed economies. According to reference [5] companies from England are also heavily engaged in cross border acquisitions in developing and emerging markets. For that reason, this provides justification

to focus attention on nations from these vicinities.

The aim of the paper is to investigate the impact of national cultural differences on international acquisition performance involving firms from England. This paper contributes in cross-cultural research in three ways. Firstly, as part of the due diligence process, it will measure cultural distance of firms from England with firms from all economies, which include those from developing and emerging markets. Secondly, through our pre-acquisition assessment, we will investigate the specific dimensions of national culture, where differences with other nations are extensive, thereafter exploring their implications on acquisition performance.

II. LITERATURE REVIEW

A. National Cultural Distance as Source of Impediment

Several studies report that national culture affects the extent to which acquisition partners interact and communicate during the post acquisition phase. Reference [6] explains that individuals from individualistic cultures are more interested in reminders and greetings and less interested in conversations and contacts. On the other hand, people from collectivist cultures are more inclined to communicate and forge cooperative alliances, [7]. Very distinct styles and expectations from communication among different national cultures often results in complexities in cooperation and sharing business ideas.

B. National Cultural Distance as Source of development

Whilst national cultural distance is frequently connected with poor performance, it can be strongly argued that, certain conditions allow for cultural distance to be a potential success factor in cross border deals. Reference [8] conceptualizes knowledge transfer as the beneficial use of capabilities, skills and knowledge from one organisation in another. Differences in national culture can be related to the "differences in the forms of knowledge that may be useful for the other party" [4]. So when cultural distance is retained, international acquisitions provide access to potentially valuable repository of capabilities such as resources, functional or management skills, [8]. When these capabilities are transferred between the organisations, a competitive advantage can be achieved and value is created. This reinforces how acquisitions that are culturally distant often result in positive outcomes.

Nevertheless, reference [9] states that although cultural differences provide the opportunities to realize learning, issues can still arise as to whether knowledge transferred has been assimilated. Therefore successful knowledge transfer depends to some extent on the receiving unit's absorptive capacity. Under conditions where the absorptive capacity of the receiver is high, they will have the ability to processes

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new information and apply it to the organization, to produce tangible results, [10]. It is under these circumstances, where national cultural distance will have a positive influence.

III. RESEARCH METHODOLOGY

The information collected to conduct this research is through secondary sources. The sources of evidence in the research include, the 'Globe studies nine dimensional data' [11]. The practice scores are used as it measures the actual distance rather than ideal differences. Other examples of sources of evidence include, a sampling frame, generated from the Mergers and Acquisitions Database of Thomson One Banker, regarding acquisitions involving English companies over a four year period.

The population of this research was any company in any country, where England had made an acquisition. However, due to the limited time frame, it is beyond the scope of this research to look at every single country. Therefore, we have used a selection criteria of the nations, English companies have been most active in. This was established by investigating the trends of English foreign acquisitions between the periods 2008 – 2012 which resulted in a total sampling frame of 19 countries.

IV. FINDINGS

We begin by presenting the recent trends in cross border acquisitions, involving English companies. This will help to justify and contextualize our research, in relation to our investigation into the national cultural distance between England and specific nations within the societal clusters.

Table I shows the distribution of English cross border. The trends prove that there is a large volume of cross-border acquisition deals taking place for English firms. For this reason, it has placed greater importance for English managers to ensure they manage cultural differences effectively. Based on the current levels of activity, we have arrived at a final sample, comprising of 19 nations in which English M&As activity were most frequent. These countries within the sample are spread across nine country clusters according to GLOBE, as illustrated below in Table II.

V. ANALYSIS AND DISCUSSION

We focus on specific dimension of national culture in order to draw specific conclusions the effects differences in each dimension can have rather than investigating the overall cultural distance.

A. Power Distance: Denmark and South Africa

With reference to Table II, findings confirm that England scored amongst the highest within our sample, on the power distance dimension, with a practice score of 5.15. Reference [12] states that power distance in an organisational context, relates to the extent in which subordinates feel they can influence decisions made by superiors and participate in the decision making process.

Their score indicates that, within English companies, the status of superiors are important and should be respected by

the subordinates "who usually expect clear instructions, which are accepted without question", [13]. Yet, for those members within Danish and South African organisations, there is a strong belief in equality amongst all members, with subordinates expecting more involvement in the decisions affecting their work. This is confirmed from the results, which show considerably lower power distance scores, at 3.89 and 4.11 respectively. Consequently, difficulties and misunderstandings may arise between English organizations and their acquired units from Denmark and South Africa.

TABLE I: CROSS BORDER M&A INVOLVING FIRMS FROM ENGLAND

GLOBE Clusters	Total number of deals	Percentage
Latin America	69	4%
Confucian	121	7%
Anglo Saxon	744	43%
Africa	76	4%
Southeast Asia	131	8%
Middle East	37	2%
Eastern Europe	135	8%
Nordic	146	8%
Latin Europe	274	16%
Total	1733	100%

Note: All Cross Border M&A between 2008 and 2012.

TABLE II: CULTURAL DIFFERENCES BETWEEN ENGLAND & DENMARK AND SOUTH AFRICA

GLOBE Dimensions	England score	Difference : Denmark	Difference: South Africa
Power Distance	5.15	1.588	1.082
Uncertainty Avoidance	4.65	0.325	0.314
Human Orientation	3.72	0.518	0.053
Institutional Collectivism	4.27	0.281	0.014
In-Group Collectivism	4.08	0.303	0.176
Assertiveness	4.15	0.123	0.202
Gender Egalitarianism	3.67	0.068	0.160
Future Orientation	4.28	0.026	0.130
Performance Orientation	4.08	0.020	0.336

Note: Lower scores indicate greater similarities to English culture

B. Uncertainty avoidance: Russia, Columbia and Greece

Reference [14] defined the uncertainty avoidance dimension as a society's tolerance for uncertainty and ambiguity. Furthermore, it is an indication, to what extent members feel either uncomfortable or comfortable in unstructured situations.

From the individual practice scores from Table III, it is evident that England is a reasonably high uncertainty avoidance nation, with a score of 4.65. Additionally, from our sample, Russia, Columbia and Greece are amongst the nations in which England has extensive cultural difference. This is because these nations score notably lower in uncertainty avoidance, for example Greece's score of 3.39. Therefore, it is the English organizations who will feel a stronger threat from uncertain and unpredictable situations. Additionally, because of these strong threat perceptions, there is likely to be a greater need for rules and absolute truths.

In contrast, for the Russian, Columbian and Greek firms, they are expected to embrace any form of uncertainty and risk, in environments where "innovation and pushing boundaries are likely to be encouraged", [15]. Nonetheless, regarding the matter of international acquisitions, these different levels in uncertainty avoidance should have important implication on acquisition performance.

TABLE III: CULTURAL DIFFERENCES BETWEEN ENGLAND AND RUSSIA, COLUMBIA AND GREECE

GLOBE Dimensions	England	Difference: Russia	Difference: Columbia	Difference: Greece
Power Distance	5.15	0.137	0.168	0.063
Uncertainty Avoidance	4.65	3.133	1.166	1.588
Human Orientation	3.72	0.048	0.000	0.144
Institutional Collectivism	4.27	0.053	0.212	1.040
In-Group Collectivism	4.08	2.403	2.723	1.416
Assertiveness	4.15	0.221	0.002	0.185
Gender Egalitarianism	3.67	0.160	0.000	0.036
Future Orientation	4.28	1.960	1.020	0.774
Performance Orientation	4.08	0.476	0.020	0.774

Note: Lower scores indicate greater similarities to English culture

Accordingly, for organizational members within low UAI cultures, such as Russia, Columbia and Greece, they would be used to operate under a relaxed and informal environment, where they are highly tolerant of risks. Yet, under the acquisition of an English firm, they are likely to be exposed to multiple transitions, such as more formal rules and procedures, where tasks are greatly detailed and calculated. As a result of these differences, acquired members, although willingly, may struggle to adapt to this type of operational structure. Indisputably, this is likely to restrain the extent to which organization members develop strong relationships [16]. During culturally distant acquisition integration, key acquired employees may be less motivated to work under the new entity. Overall it is these types of differences which will impede integration efforts, negatively impacting on acquisition performance.

C. In Group Collectivism: India, China, Turkey

The dimension of In-group collectivism is most commonly used by researchers to comprehend the implications between different cultures [13].

Table IV shows that England is more of an individualistic nation than it is collective, with a practice score of 4.08. Therefore, "personal needs and attitudes are important determinants of social behavior" and "little distinction is made between in-groups and out groups", [17]. In contrast, nations such as China, India and Turkey have high levels in group collectivism, based on their scores at 5.92, 5.80 and 5.88. Therefore group loyalty is a key factor in these nations, where there tends to be a sense of family feeling and social responsibility [18]. Therefore for English organisations, acquiring companies from these nations, large differences on this dimension of national culture will exist, more extensively in India, where results confirm a cultural distance score with

England at 3.386.

TABLE IV: CULTURAL DIFFERENCES BETWEEN ENGLAND AND INDIA, CHINA AND TURKEY

GLOBE Dimensions	England	Difference: India	Difference: China	Difference: Turkey
Power Distance	5.15	0.102	0.012	0.176
Uncertainty Avoidance	4.65	0.250	0.084	1.040
Human Orientation	3.72	0.723	0.410	0.048
Institutional Collectivism	4.27	0.012	0.250	0.058
In-Group Collectivism	4.08	3.386	2.958	3.240
Assertiveness	4.15	0.176	0.152	0.144
Gender Egalitarianism	3.67	0.593	0.384	0.608
Future Orientation	4.28	0.008	0.281	0.292
Performance Orientation	4.08	0.029	0.137	0.063

Note: Lower scores indicate greater similarities to English culture

For acquiring members within English organisations, they are more likely to maximize self-interest, without regard of the needs of members from the target firm. In contrast, the acquired, Indian, Turkish or Chinese firms as part of a collectivist culture will emphasize group goals, and aspirations of individuals tied to social obligations. In short, it is these differences in the mentality, values and customs with regards to behavior in the work environment of an acquisition, which are likely to lead to diverse viewpoints between different cultural groups, restraining the extent to which organisation members co-operate and work with each other. For these and other reasons, it is plausible that combining individualist with collectivist employees may inhibit the operations of the acquisition.

VI. RECOMMENDATIONS

A. Power Distance

1) Early and high level communication

A lack of communication and dissimilar decision making practices, are key issues connected with differences in the power dimension. Therefore it seems highly appropriate for managers of English firms to, ensure they engage in early and high level communication with target firm, as it can aid in "establishing relationships, and more importantly help those employees feel appreciated", [13]. Reference [19] provides further justification by stating that, "besides the me issues, people want to know about the operations, systems and financial aspects of the newly formed organization, as these are matters that affect their personal situations". Therefore, it only seems logical that, to enhance acquisition success, with cultural integration, leaders must "share as much information early and often", [20]. As a result, managers of the acquiring English companies will not have to alter their existing high power management style, whilst at the same time, low power distance members from the target firm, can form an integral part of the new company. This gives good explanation for why high level communication is an appropriate strategy management could employ to deal with the implications of

differences in power distance.

B. Cross Company Teams

Reference [21] states that for the success of international acquisitions cross functional teams are no longer sufficient and cross business collaboration is becoming increasingly popular. Cross company teams can be defined as the mixed collaboration between members of the acquiring and acquired firms, [22]. This recommendation is very necessary for management in dealing with the rejection of knowledge transfer, identified from our research, as cross company teams "provide greater opportunities to and gain new perspectives and skills", from other individuals. This type of activity is likely to improve coordination, integration capabilities, and more importantly learning potential across national boundaries.

C. Uncertainty Avoidance

1) Build and develop trust

Trust is an important factor in business relations across national cultures, as it is a key "determinant of employees reactions or adversity to change, [19]. With reference to our findings, trust and resistance to change are key implications originating from differences in the levels of uncertainty avoidance between partners in an acquisition. Therefore it is imperative for English managers to develop, trust amongst members from both parties in order to overcome these sociocultural barriers, whilst at the same time raising the confidence of all workforces involved.

2) Cross - cultural training

With reference back to the research, it is clear that the lack of trust extended to foreigners, particularly from those members who are high on uncertainty avoidance, is positively associated with cultural differences in uncertainty. With reference to [23], it details that by educating and training workforce about the culture of their partners and their ways of conducting business, can provide the necessary cultural understanding and intercultural sensitivity required to understand their colleagues' cultural values and preferences. This in turn will increase the potential for successful human integration, essential for long-term success.

D. In Group - Collectivism

1) Reward systems

It can be strongly argued that despite the differences in the levels of in group collectivism between acquirer English firms and their international targets, enhancing the commitment and mutual dependence of both parties is likely to help in managing the potential impact of distance in this cultural dimension. Reference [24] states that increasing mutual dependence can be done using reward systems. In this context, it can be argued that English managers should seek to base salary and reward systems not only on individual performances, but also on group performance. This would help "increase the degree of family feeling amongst those employees highly collective", [25]. Therefore regardless of the differences in this dimension, a reward scheme will encourage individual initiative and competition whilst simultaneously also showing care and recognition to group efforts. A practical example is from reference [26]; when

Volkswagen and Skoda merged, they developed many reward programs (which reflected team integration) where the best ideas were kept, irrelevant of which organization they derived from. Rewards systems encouraged thus the collaboration of employees from both firms. For this reason, reward schemes are effective in increasing openness of both firms to work through their differences and work together in achieving acquisition objectives.

VII. CONCLUSION

From the research undertaken on the trends of English cross-border acquisitions, it became clear why establishing cultural distance levels with those nations they are highly active in was of great importance. The culture distance scores will provide management with at least an awareness, of those nations where problems may potentially occur. Secondly, from these differences, it enabled us investigate problems in differences from each dimension of national culture. Thus, this research has shown that for an international acquisition to have a better chance of success, English managers must recognize cultural differences, but more importantly allocate enough time and resources, in order to assimilate the host countries culture, with preparation to take place in advance of the deal.

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