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The impact of cultural differences and acculturation factors on post-acquisition conflict☆

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Abstract The importance of cultural factors as antecedents of post-acquisition conflict has been recognized in previous research. Nevertheless, this recognition has translated itself into relatively little wide-scale empirical research. Therefore, this paper empirically examines the impact of cultural differences and acculturation factors on post-acquisition conflict. It proposes that post-acquisition conflict can be explained by cultural differences and acculturation factors. The sample is based on domestic and international acquisitions carried out by Finnish corporations during the period 2001—2004. The results show that organizational cultural differences and organizational cultural preservation increase conflict, partner attractiveness decreases conflict, while national cultural differences have no influence on the level of conflict. These findings confirm that both organizational cultural differences and acculturation factors are needed to explain the essential dynamics of post-acquisition integration.
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Introduction

Acquisitions are an important mechanism through which firms grow and gain access to new resources. However, previous acquisitions studies have indicated that a large percentage of acquisitions fail to reach their objectives. According to a literature review by Hunt (1990), most studies have reported failure rates as high as 50%. Marks and Mirvis (2001) present an even higher failure rate by suggesting that 75% of acquisitions fail to achieve their objectives.

The high failure rates have most often been explained by the problems involved in integrating the acquiring and the acquired firm. *Post-acquisition integration* is defined as the changes in the functional activities, organizational structures, and cultures of the acquiring and acquired firm that facilitate their consolidation into a functioning whole (Pablo, 1994). Haspeslagh and Jemison (1991) suggest that unless the acquisition is motivated by purely financial reasons — to lower the cost of capital — post-acquisition integration plays an important role in determining the acquisition results.

Literature on the *people dimension* in acquisitions focuses on the psychological and behavioral responses of organizational members to acquisitions. According to this view, many of the reasons for acquisition failure stem directly from people-related problems because of the often dysfunctional effects of acquisitions on organizational members (see the review of Seo & Hill, 2005). Although previous theoretical and qualitative research has recognized the importance of the people dimension in determining post-acquisition outcomes, this has not led to large-scale empirical research on the antecedents of the people dimension. Such studies are nevertheless needed in order to further test and develop the theories put forward in theoretical and qualitative papers.

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Hence, this study focuses on explaining the antecedents of one important aspect of the people dimension, post-acquisition conflict. *Post-acquisition conflict* is defined as disruptive inter-group tensions stemming from the "us" vs. "them" mentality between the acquiring and the acquired firm during post-acquisition integration. This article focuses on the antecedents of post-acquisition conflict for two main reasons. First, post-acquisition conflict has an important role in determining other types of post-acquisition outcomes, such as financial performance and synergy realization. For instance, Very, Lubatkin, and Calori (1996) found that post-acquisition conflict, measured as acculturative stress, diminished the post-acquisition performance of the firm. Similarly, Larsson and Finkelstein (1999) showed that, in terms of employee resistance, post-acquisition conflict decreased synergy realization during post-acquisition integration. Second, previous quantitative studies have mainly concentrated on explaining accounting and stock market-based performance. Larger scale quantitative studies that concentrate on explaining the antecedents of post-acquisition conflict remain scarce. However, such studies are needed in order to test theories related to the people dimension that have been put forward in previous theoretical and qualitative papers.

In order to explain the antecedents of post-acquisition conflict, this article focuses on the cultural dimension. The *cultural dimension* on acquisitions explores cultural variables and their impact on various acquisition outcomes. Although cultural factors have been linked to people dimension in several theoretical papers (e.g. Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988) and case studies (e.g. Buono, 2003; Buono & Bowditch, 1989; Ivancevich, Schweiger, & Power, 1987; Marks & Mirvis, 1985; Olie, 2005; Panchal & Cartwright, 2001; Sales & Mirvis, 1984; Sinetar, 1981), only a few quantitative studies have combined people and cultural dimensions (for these exceptions see Birkinshaw, Bresman, & Håkanson, 2000; Larsson & Finkelstein, 1999; Very et al., 1996). In general, quantitative studies exploring the cultural dimension have had a tendency to link cultural factors directly to financial acquisition performance (for examples of this approach see Datta & Puia, 1995; Morosini, Shane, & Singh, 1998) without testing the role that they play in determining important aspects of the people dimension, such as post-acquisition conflict.

Thus, the aim of this study is to combine the *cultural* and *people dimensions* on acquisitions by exploring the impact of cultural factors on post-acquisition conflict. Based on previous research on cultural factors in acquisitions, cultural differences at both the national and organizational cultural level are included. This is consistent with the review of Stahl and Voight (2005) in which the authors call for studies focusing on how cultural differences affect socio-cultural integration in acquisitions. It is also in line with the study of Weber, Shenkar, and Raveh (1996), in which the authors request studies including cultural differences both at the national and organizational cultural levels.

Following the advice of Stahl and Voight (2005) and Teerikangas and Very (2006) to examine other cultural factors in addition to cultural differences, the following *acculturation factors* derived from the acculturation theory (Berry, 1980; Nahavandi & Malekzadeh, 1988) are also included: *multiculturalism, organizational cultural preservation,* and *attractiveness of the partner.* Although theoretically plausible, the impact of acculturation factors on post-acquisition conflict has not been empirically tested in previous large-scale studies.

This article focuses on both international and domestic acquisitions in order to explore the effect of both national and organizational cultural differences. In addition, the article concentrates on acquisitions that involve some level of post-acquisition integration because post-acquisition conflict is likely to be particularly relevant in these types of acquisitions. Consequently, following the approach of Haspeslagh and Jemison (1991), acquisitions that involve only financial integration are excluded as these acquisitions do not involve a "real" integration process of the acquiring and the acquired firms.

The paper is structured as follows. The theoretical section begins with definitions of the key concepts of the study. Next, an overview of the research on the people and cultural dimensions on acquisitions is presented. This is followed by the development of the research hypotheses concerning the impact of cultural differences and acculturation factors on post-acquisition conflict. The hypotheses are tested in the next sections. The final section discusses the results and the limitations of the study, presents suggestions for future research and indicates managerial conclusions.

Literature review

Key concepts

Mergers vs. acquisitions

The terms "merger" and "acquisition" are often used interchangeably to the extent that Haspeslagh and Jemison (1991) argue that distinctions between mergers and acquisitions are in the "eye of the beholder".[1] Teerikangas and Very (2006) argue that such loose definitions of mergers and acquisitions have led to an ill-defined focus in merger and acquisition studies. In this study, an *acquisition* is defined as one company taking a controlling interest (over 50%) of another company, regardless of the sizes of the companies (Butler, Ferris, & Napier, 1991). The term *merger* refers to a combination of equal-sized firms (Haspeslagh & Jemison, 1991), in which neither party can clearly be seen as the acquirer (Søderberg & Vaara, 2003). Due to considerable overlap in the use of terms "merger" and "acquisition" in previous research, the theoretical arguments of this study build on the M&A literature but the empirical analysis focuses on acquisitions as the unit of analysis.

[1] It is worth noting that mergers are a small phenomenon compared with acquisitions: According to a UNCTAD (2000) estimate, only 3% of all mergers and acquisitions are actually mergers (quoted in Buckley & Ghauri, 2002; Teerikangas & Very, 2006). In addition, some deals publicized as "mergers" are, in reality, acquisitions in disguise. Particularly in mergers publicized as "mergers of equals", one of the parties is often in control and the term "merger" is used for political reasons to avoid the seeming dominance of one firm (Piekkari, Vaara, Tienari, & Säntti, 2005). Examples of such "mergers" include DaimlerChrysler and Arcelor Mittal. True "mergers of equals" are rare because of the difficulties in maintaining a genuine balance in the power disposition (Vaara & Tienari, 2003; Zaheer, Schomaker, and Genc, 2003).

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