MANAGING THE INTERCULTURAL ISSUES IN AUTOMOTIVE INDUSTRY MERGERS AND ACQUISITIONS

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ABSTRACT
Mergers and acquisitions are a strategic choice to grow quicker, enter new markets and maximize companies' capabilities which otherwise would not have been possible. Within the automotive industry this phenomenon has been seen repeatedly with examples like the Mitsubishi - Daimler, Jaguar - Ford, Daimler-Chrysler, Seat-Volkswagen, Daewoo-General Motors and Land Rover -Ford. Although M&A activity has trended directionally consistent with automotive assembly volume, there are some failure cases within automotive industry M&As (e.g. Rover-BMW). In this paper, the focus will be on the intercultural issues of the M&A phenomenon: attitudes, cultures, values, tradition etc. The underestimation of the cultural factors has significant impact on why M&A operations sometimes fail to achieve the pre-defined goals. It is of vital importance for the automotive companies to understand and be aware of these intercultural issues in order to be successful in their merger or acquisition. The understanding and awareness of cultural differences have to be built and developed in order to avoid cultural conflicts and clashes.

KEYWORDS: *mergers and acquisitions (M&As), intercultural, cultural differences, automotive industry*

JEL CLASSIFICATION: *F23, G34, L62, M14*

1. INTRODUCTION

Today's business world hosts an important phenomenon, mergers and acquisitions (M&As), a way to expand business activities by consolidating or buying another company. It is a strategic choice to grow quicker, enter new markets and maximize companies' capabilities which otherwise would not have been possible without M&As. The increased competition in the global market has prompted the automotive companies to go for M&As as an important strategic choice. Within the automotive industry this phenomenon has been seen repeatedly with examples like the Rover- BMW, Renault-Nissan, Daimler-Chrysler, Skoda- Volkswagen, Daewoo-General Motors and Ford -Volvo.

M&As can be successful or less successful. Practically M&As are well-known for having a high rate of failure. Research evidence has demonstrated that quite often M&As had an unfavorable impact on the profitability and productivity. Instead of achieving the expected goals, such as economies of scale, M&As have become associated with lower performance. Research evidence led to the conclusion that around 50-70 percent of M&As are considered financially unsuccessful.

M&As have been a largely used tool to expand a business in today's highly competitive automotive industry. M&A activity has trended directionally consistent with automotive

assembly volume. Though, there are some success cases and some failure cases within automotive industry M&As.
The failures are explained by M&A scholars and practitioners in two distinct ways. The first one "the traditional way" explains M&As failures only as a matter of finance and strategy. The second way is more focused on the intercultural issues of the M&A phenomenon: attitudes, cultures, values, tradition etc.
This underestimation of the cultural factors, the cultural incompatibility between the target and acquiring firm has significant impact on why M&A operations sometimes fail to achieve the pre-defined goals.
Cross-border M&As remain a source of intercultural clashes because different cultures must be integrated into a single one, or one culture has to be absorbed by the other.

2. WHICH ARE THE INTERCULTURAL PARTICULARITIES IN M&A?

In a recent course (Rothlauf, 2011) is mentioned that between 2002 and 2004, Lodorfos and Boateng conducted 32 interviews with senior managers of 16 European large scale M&A deals in the chemical industry and also found out that culture "plays a key role in the integration process and consequently the overall success of the M&A". I agree with one of the course conclusion that is neither should one make the mistake to blame intercultural problems for every M&A failure and nor should the topic be over- or underestimated. It is important to find the right balance between strategic, financial and cultural aspects.
In a recent book, Zaiţ (2013) considers that intercultural approach proposes, ultimately, achieving a reasonable compromise between partners compromise on the basis of which lies the knowledge, understanding and integrating differences in realistic and reasonable strategies by which can be correctly solved problems of this class.
Since the end of the Cold War, the study of intercultural relations has become a popular topic in the field of global politics and economics. But support has been found for views emphasizing both intercultural conflict and cooperation. With all the positive ways of gaining from intercultural cooperation, it seems logical to inquire why economic cooperation has failed. Regions are a basis for cooperation among states only to the extent that geography coincides with culture. Divorced from culture, propinquity does not yield commonality and may foster just the reverse. The overall effectiveness of multicultural organizations generally varies inversely with the cultural diversity among their members. As a result single cultural organizations are more stable and successful than multicultural organizations. This is true for both political and economic organizations (Rongxing, 2012).
An interesting paper (Rkibi, 2009) remarks that the scholars seem to be concerned rather with strategy and structure to the detriment of intercultural relations, while industry experts focuses its attention on psychology, showing a poor understanding of strategic issues.
Culture, through the influence on behaviour, attitudes, and positions towards action can be considered an important factor, maybe decisive, of facilitating, blockage, success or failure in different types of research, as Zaiţ and Spalanzani (2009) state.
Warter and Warter (2014) highlight that although most of the researchers point to cultural determinants of M&A, there is not a general common opinion of the main M&A success factors.
According to Gesteland (2012), whether marketing, selling, sourcing, negotiating or managing internationally, the differences between relationship-focused (RF) and deal-focused (DF) business behavior impact our success throughout the global marketplace. The vast majority of the world's markets are relationship-oriented: the Arab world and most of Africa, Latin America, and the Asia/Pacific region. These are markets where people tend to avoid doing business with strangers. Instead they expect to get things done through networks of personal

contacts. RF people deal with family, friends and persons or groups well–known to them – people who can be trusted. Acculturated in low trust societies, they tend to be uncomfortable doing business with strangers, especially foreigners. Because of this key cultural value, relationship-oriented firms typically want to know their prospective business partners well before talking business with them.

In contrast, the deal-focused approach is common in only a small part of the world. Strongly DF cultures are found primarily in the high-trust societies of northern Europe, North America, Australia and New Zealand where people are relatively open to doing business with strangers.

In an interesting paper (Barmeyer & Mayrhofer, 2008) is highlighted that the field of intercultural management developed in the USA towards the end of the 1970s and was based on international and compared management. Intercultural management attempts to evaluate the influence of culture (national and organisational) on the perceptions, interpretations and actions of managers. Intercultural management plays an important role in international mergers and acquisitions where collaborators from several countries are put into a situation where they have to work together. Nonetheless, the differences between systems, which can bring about conflicts and misunderstandings, are often underestimated. This underestimation of the cultural factor seems surprising, because the merging of companies is, above all, a merging between different human beings.

For instance, in examining intercultural approaches, Zaiţ (2013) argued that the specialized literature highlights four determining factors of the appearance and development of intercultural approaches (now marking discipline issues Intercultural Management):

- ✓ Internationalization and globalization;
- ✓ The competition between international corporations;
- ✓ Free movement of specialists and liberal professions;
- ✓ Communication and information technologies.

Zaiţ and Spalanzani (2009) posit that culture can influence in a decisive manner the individual's attitude to research in his various stages of development, education and training.

In a recent paper, Gomes et al. (2014) argue that overall, the scope of strategic alliance research published in the mainstream management journals is mixed. For example, there was sufficient coverage of single country studies, opposed to crosscultural and comparative studies. Consequently, this single country focus limits our understanding of strategic alliances in cross-cultural settings.

Rosinski (2003) concludes that within groups there are individual differences, class and educational differences, ethnic and racial differences, personality type differences, and gender differences. Furthermore, groups develop their own cultures. And once differences can be seen as cultural, there is the possibility of understanding and developing skills to manage, or better yet leverage, those differences.

Dundon (2002) highlights that it is important to understand the difference between the stated culture and the real culture. The author points out that many teams post a list of the principles and practices that comprise their stated culture on their boardroom wall but then do nothing to correct behavior that deviates from this stated culture. Real culture relies more on the personalities and behaviors of the team members than on a list of desired attributes.

Other scholars (Xing et al., 2014) argue that based on their analysis, cultural influences at the macro level can affect HRM practices at the organizational level.

Teerikangas et al. (2011) conclude that cultural change in cross-border acquisitions not only occurs at the level of organizational culture, but also at the level of national culture.

A similar point of view is presented by Viegas-Pires (2013). He points out that in sum, there is a need to consider interactions between multiple culture levels and extracultural factors (i.e., the different dimensions of integration).

Some scholars (Trompenaars & Asser, 2010) remark that KPMG (1999) and Booz Allen Hamilton (2001) have reported that more than two-thirds of mergers failed to live up to their own targets. There is also evidence that companies have become somewhat better at merging and have realized the need to place more focus on the human factor, relationship management, communication, trust, and a clear people process and human integration strategy. As a result of this new focus the authors have seen significant successes at IBM, Cisco, Compass (Catering), Johnson & Johnson, Linde AG and Vodafone. The authors' conclusion is that organizations will have problems if they fail to identify and focus on the key issues or to question (cultural) assumptions or fail to assess and allocate appropriate resources.

Other scholars (Hofstede et al., 2010) emphasise that mergers, acquisitions, joint ventures, and alliances across national borders have become frequent, but they remain a regular source of cross-cultural clashes. Cross-national ventures have often turned out to be dramatic failures. Leyland-Innocenti, Vereinigte Flugzeugwerke–Fokker and later DASA-Fokker, Hoogovens-Hoesch and later Hoogovens–British Steel, Citroen-Fiat, Renault-Volvo, Daimler-Chrysler, and Alitalia-KLM are just a few of the more notorious ones. There is little doubt that the list will continue growing as long as management decisions about international ventures are based solely on financial considerations. Even within countries, such ventures have a dubious success record, but across borders they are all the less likely to succeed. If cultural conditions do look favorable, the cultural integration of the new cooperative structure should still be managed; it does not happen by itself. Cultural integration takes lots of time, energy, and money unforeseen by the financial experts who designed the venture.

Still others (Ulijn et al., 2010) highlight that moreover, most scholars and practitioners intuitively feel that cultural differences matter in strategic alliances and M&A, but when they matter, under what conditions they matter, and how they matter are at the moment poorly understood. Cultural issues happen to be particularly relevant in M&A of firms because different cultures must be integrated into a single one, or one culture has to be absorbed by the other.

A similar point of view is presented by Gertsen et al. (2004). They show that not only researchers but also the managers and employees involved in mergers have pointed to national and organizational cultural differences as major causes of integration problems. In fact, culture has become an integral part of the general discussion on mergers, and thus a core element of the social construction of the phenomenon.

In our review, we found various interpretations of intercultural particularities. Consequently, we have observed that most scholars and practitioners agreed that cultural influences matter in M&A.

In our opinion, any management and research approach should consider the significant role of national and organizational cultural differences; neglecting the cultural factor can be a huge mistake.

3. WHAT IS THE RELATIONSHIP BETWEEN CULTURAL DIFFERENCES AND M&A PERFORMANCE?

In most studies the main reason given for merger failure is “cultural differences.” These issues must be better addressed so that future mergers will succeed where others have failed. A systematic and triangulated approach to assessing cultural differences needs to be in place and communicated through the management ranks and beyond, as Trompenaars and Asser (2010) point out. There are many tools available to help in this, but importantly, the authors have found that it is not just about measuring cultural differences and/or resolving potential challenges.

An interesting view belonging to Rothlauf (2011) reveals that an often cited study by KPMG (1999) found out that 83% of all cross-border M&As failed to produce any benefit for the shareholders and over 50% actually destroyed value. When looking for possible reasons researchers interviewed around 100 senior executives involved in international M&A and it was revealed that cultural differences were mentioned as the “single biggest cause for the failure”.

Investor’s decision to acquire, sell or to carry out projects in a particular area, region or country is not only due to purely economic, commercial or financial reasoning, as Zait et al. (2014) remark. In such operations, meeting among businessmen, managers and other professionals in the field is, first of all, meeting in specific circumstances, among more or less different cultures.

According to Rothlauf (2011), for quite a long time culture has been considered as a disturbing factor for M&A, however, it also offers a lot of potential. Different experiences, methods and knowledge come together and can, if managed properly, create a decisive competitive advantage. He argues that crucial for the success of the cultural integration is not a high number of similarities, since even M&A between apparently similar partners fail - an often mentioned example here is the case of Daimler and Chrysler - but the identification of conflict potential and their consideration during the integration process.

An interesting approach is presented by Ahammad et al. (2014). The authors argue that greater national cultural distance and organizational culture differences assists in creating unique knowledge-based resources and encourages firms to actively transfer these in the combined firm. Transfer of such knowledge-based resources enhances the competitive advantage of the combined firm and eventually, post-acquisition performance.

According to Rkibi (2009), the cultural influences have a certain effect on management. Some studies have shown that the results of such management are rather negative when we are in the presence of homogeneous culturally groups. On the other hand, studies have shown that a multicultural group shows more creativity and has a greater ability to find various solutions to problems, and a greater ability to choose between several options.

As Meier and Schier (2009) observe, in general, the shock in the case of cultures of comparisons is exerted at three main levels: structure and operating systems, management style and mode of legitimation of power within entities.

Zaidman (2001) too reflects upon this phenomenon and claims that international business education should include seminars that focus on awareness of differences in cross- cultural business communication as well as on culture-specific discourse systems that have an impact on business communication.

In a recent paper, Warter and Warter (2014) conclude that even in scientific research culture, through the influence on behaviour, attitudes, and positions towards action is a major factor of facilitating, blockage, success or failure.

Zaiţ (2013) emphasizes that mixing different solutions as cultural origin offers almost always the chance of obtaining a significant intercultural synergy in business, management, negotiation or marketing, etc.

Another scholar (He, 2009) highlights that the acquisition process may affect performance, as acquiring companies adopting a 'soft approach' or introducing 'gradual changes' are more likely to gain knowledge of the subsidiary progressively. As a result, they may have more time and resources to deal with the challenges and difficulties of the integration process.
A similar approach is presented by Stahl and Voigt (2005). They show that cultural differences, if properly understood and managed, can be an asset rather than a liability in M&A, and that cultural differences may affect the sub-processes of task integration and socio-cultural integration in different ways. Thus, cultural differences can be a source of value creation and learning in M&A, but they can also create obstacles to reaping projected synergies by exacerbating social integration problems and diminishing the firms' capacity to absorb capabilities from the other party.
Trompenaars and Asser (2010) consider that organizations that are able to reconcile their differences will have created competitive advantage. If they do not, they will end up amongst the 70% of mergers that fail. Every party should contribute, regardless of whether they are the buyer or the bought, the smaller or the larger.
Our study seeks to further the understanding of the impact of cultural differences on M&A performance with emphasis on cross border M&A in automotive industry. Therefore, we searched in the scientific literature different opinions to clarify these matters.

4. INTERCULTURAL ISSUES IN THE AUTOMOTIVE INDUSTRY

There are underlying challenges that the automotive industry is set to face, ranging from changing demographics and economic policies to cultural differences - challenges that are supposable to drive global automotive M&A activity, as companies look for solutions to acquire key competencies and new technologies as well as to expand their geographical footprint.
Cross-border M&A is a complex business involving great risk due to different organizational and national cultures. Huge losses are often due to errors in evaluation of intercultural issues. Understanding and assessing the cultural differences is very necessary for those automotive companies which want to grow up through strategic M&A, because it is not only the basis to determine the feasibility of M&A, but also to a certain extent, it determines the success or failure of automotive M&As.
The case of Geely-Volvo M&A is a success story in spite of the great number of cultural differences among the companies: one from China and the other from Sweden. The possible explanation from an intercultural point of view could be the identification of conflict potential in the pre-merger stage and its consideration during the integration process.
Underestimating the difficulties of merging two cultures is a dangerous trap because M&As deal also with the human side of the integration process, such as cultural clashes, psychological aspects, and conflict resolution.
In spite of these risks, global automotive M&A activity remained a cost-effective way to gain access to key markets, increased integration and technological synergies. The automotive firms are under pressure to reduce R&D expenses and incorporate global best practices, so they will continue to focus on these trends in order to expand their geographical footprint.
These trends made culture an integral part of the general debate on mergers and acquisitions, and thus a core constituent of the social frame of this important phenomenon.
There are lots of factors that can have an influence upon these M&As: the corporate and societal cultures of each company, the companies' environment, and the employee resistance against the merger or acquisition.
Cross-border M&As have often turned out to be notable failures. Daimler-Chrysler, Citroen-Fiat, and Renault-Volvo are just several of the more popular ones. These failures might be a

result of minimizing the role of national and organizational cultural differences between the companies involved in M&As. As a result, the automotive industry M&As are changing at a fast pace. Never before has evolution in M&A integration strategies happened in such short periods of time.

It is important to highlight that the cultural differences are of great significance when M&As are occurring between two companies from two different countries. Each company has also its own organizational culture, which differs from other companies. The control and understanding of the national and organizational culture for both merged companies are a key responsibility of the top managers involved.

Culture, at both levels, is thought to give unique competitive benefits and/or strong restrictions. The cultural differences, in the integration process, play a crucial role that can change the outcome of a M&A. The integration process, where cultural differences play a crucial role, can totally change the future of a M&A whether it has been well planned or not in the pre-merger stage.

The M&A activity in the automotive sector, usually, implies some stages of cultural integration. During these stages employees perceive a threat against their own cultures, both national and organizational, and then a cultural confrontation occurs. Sometimes, the compatibility of corporate or/and national cultures between combining organisations would seem to imply cultural similarity. In which case, making a successful merger or acquisition depends on the ability of decision makers to control and implement the initial strategy.

Anyway, the assumption that combination between two organisations that are similar makes a successful M&A is controversial and the post-merger reality can appear to be totally different from what was expected before the merger or acquisition. An often mentioned example is a M&A between apparently similar automotive companies who failed, the case of Daimler and Chrysler.

5. CONCLUSION

When automotive companies from different countries are involved in a M&A, there is a significant probability that they will experience cultural conflicts and clashes. It is of vital importance for these companies to understand and be aware of these intercultural issues in order to be successful in their merger or acquisition.

These cultural conflicts are attributed to the action of cultural differences on the employees of both automotive companies. The cultural integration process is not always as easy as the top managers think from the pre-merger stage. The integration process of a M&A, in the post-merger stage, is the most important and difficult part. In order to avoid these difficulties, scholars and practitioners recommend conducting a cultural due diligence in the pre-merger stage of M&As. They point out that if merging companies do not have a comparable culture they have to adjust towards each other and make some cultural modifications.

In the same time, cultural differences can offer a lot of potential. Different experiences, procedures and knowledge can, if well-managed, create a competitive benefit for the merged companies in the automotive sector. Thus, cultural differences can be an asset rather than a liability in M&A, an important source of value creation.

In this paper, we found various interpretations of intercultural particularities in the automotive industry. Consequently, we have observed that most scholars and practitioners agreed that cultural differences influence the success/failure in automotive M&A.

In our opinion, all decision makers should consider the significant role of national and organizational cultures; neglecting the cultural factor can be a huge mistake.

At present the automotive sector is composed of different cultures that influence the actions and behaviour of companies involved in cross-border M&As. Thus it has become very important for top managers to learn and be aware of values, traditions and behaviours of others cultures. The awareness of cultural differences has to be built and developed in order to avoid cultural conflicts and clashes.

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