



# Culture clashes in cross-border mergers and acquisitions: A case study of Sweden's Volvo and South Korea's Samsung<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 7 May 2014

Received in revised form 30 October 2014

Accepted 30 October 2014

Available online 20 November 2014

### Keywords:

Cross-border mergers and acquisitions

Cultural differences

Post-acquisition integration

## ABSTRACT

This study investigates the way in which employees from acquiring and acquired firms experience cultural differences during post-acquisition integration. We examined Volvo Construction Equipment's acquisition of Samsung Heavy Industry's division of construction equipment. Two ontologically bipolar conceptualizations of culture – the classic and social constructivist concept of culture – are discussed. Semi-structured interviews were conducted at Volvo Construction Equipment Korea twice over an 11-year interval, in 2001 and 2012, respectively. The results suggest that while the classic concept of culture correctly predicts what kinds of culture-dependent problems may occur during post-acquisition integration, the social constructivist concept of culture can better predict whether or not these problems may occur.

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## 1. Introduction

Although international mergers and acquisitions (M&A) have long been used by multinational enterprises (MNEs) to quickly expand abroad or penetrate new foreign markets, previous studies have generally noted disappointing M&A outcomes. For example, Schoenberg (2006) and Bruner (2004) suggest that 50–80% of all M&A transactions fail in both *ex ante* (e.g., cumulative abnormal returns) and *ex post* (e.g., increases in revenues or net profits) financial terms. Scholars often attempt to explain the high failure rate from either a strategic or financial perspective. However, since the beginning of the 1980s, they have begun to pay close attention to “softer” issues, such as increased anxiety, stress and local employees' negative attitudes toward M&A (refer to Cartwright & Cooper, 1993a, 1993b, 1996; also see Sinkovics, Zagelmeyer, & Kusstatscher, 2011). This line of research has been followed by a number of cultural studies examining whether either national or organizational cultural differences between acquiring and acquired firms lead to dysfunctional outcomes.

However, the results from these studies on cultural impacts remain inconclusive (see Stahl & Voigt, 2005; Teerikangas & Very, 2006 for extensive literature reviews). In the same vein, it is interesting to note that a large number of extant studies concluded

national cultural differences in cross-border M&As (CMA) may have positive effects, while organizational cultural differences in domestic M&As (DMA) are largely negative (Larsson & Lubatkin, 2001; Larsson & Risberg, 1998; Morosini, Shane, & Singh, 1998). The results are clearly contradictory to the common understanding that national cultural differences often reflect profound differences in basic values and thus may cause more severe culture clashes in CMA than organizational cultural differences do in DMA. One of the possible explanations is that acquiring firms tend to be more culturally sensitive in post-acquisition integration in CMA than DMA, because national cultural differences are quite often more salient than organizational cultural differences (Stahl & Voigt, 2005).

The explanation above clearly presumes that national cultural differences in CMA can be successfully managed in cases where the correct post-acquisition strategies are properly implemented. However, a problem is that we still do not know exactly how this can be done effectively. Indeed, findings from previous studies examining post-acquisition integration processes are not robust either, and thus do not provide us with an adequate answer to this question. For example, some researchers have argued that it is desirable for acquiring firms to keep levels of integration low and grant a considerable degree of autonomy to acquired firms to avoid potential culture clashes and boost M&A performance when national cultural distance is relatively large (Slangen, 2006). On the contrary, other researchers have also argued that social control, which stresses cooperation between acquiring and acquired employees, may greatly help acquiring firms achieve a successful acculturation (e.g., Larsson & Lubatkin, 2001).

<sup>☆</sup> This work was supported by Hankuk University of Foreign Studies Research Fund.

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The discussion so far suggests that we need to better understand the effects of national cultural differences in the context of CMA. In this sense, we strongly argue that studies looking deeply into how national cultural differences are actually experienced in real life among acquiring and acquired employees during the course of post-acquisition integration are needed more than the kinds of studies examining the “fit” between the degree of differences in national cultures and post-acquisition strategies. In this way, we can possibly obtain a better understanding of why national cultural differences can be either beneficial or detrimental to the success of CMA.

In recognition of this, we have examined Volvo Construction Equipment's acquisition of Samsung Heavy Industry's division of construction equipment twice over an 11-year interval in 2001 and 2012. This paper is also expected to fill a significant research gap in that it investigates a single M&A transaction reflecting stark national cultural differences – namely, Sweden and South Korea – longitudinally, in a qualitative manner, whereas previous studies were typically cross-sectional and examined M&A transactions only within Western countries (e.g., Apfelthaler, Muller, & Rehder, 2002; Aw & Chatterjee, 2004; Slangen, 2006, among others).

## 2. Theoretical background and conceptual framework

Prior studies examining the human and psychological aspects of M&A from a cultural perspective can be roughly divided into two broad categories. These two groups of studies have been conducted separately in different scholarly domains. The studies in the first category, which we call the ‘value conflict’ approach, treat national and/or organizational cultural differences as an independent variable and examine its relationship with a variety of dependent variables such as M&A performance (e.g., cumulative abnormal returns or return on equity), knowledge transfer and/or social-cultural integration outcomes (e.g., employee resistance or acculturative stress). Here, cultural differences are often measured as the sum of differences in value orientations between acquiring and acquired firms, e.g., cultural distance. These studies usually – but not always – assume that post-acquisition integration efforts are likely to fare poorly when acquiring and acquired firms have significantly different value orientations (cultural incompatibility). Many of these studies have also paid close attention to the moderating effects of post-acquisition integration factors (e.g., autonomy removal, level of integration, or speed of integration) on the relationship discussed above. The majority of M&A studies in the field of international business and strategy can be classified into this category.

The studies in the second category, however, which we call the “identity conflict” approach, view the same human and psychological aspects of M&A from a completely different angle. They do not use the term ‘culture’ explicitly in their studies. Rather, based on social identity theory, they assume that conflict and strife between acquiring and acquired employees breaks out during post-acquisition integration processes, not because they have significantly different value priorities but because acquired employees refuse to accept a new group identity and still identify themselves as members of the acquired firms even after the acquisitions. These studies often treat post-merger identification – the degree to which acquiring and/or acquired employees identify themselves as members of either a new or an old group after acquisitions – as a dependent variable, and try to figure out its determinants, usually from among a variety of social and situational factors associated with M&A, e.g., pre-merger identification, pre-merger status, the sense of continuity of identity, or permeability of group boundaries. It is also interesting to note that while the majority of studies in the first category often collect data and conduct analyses at the organizational level, the studies in the

second category, on the contrary, are at the individual level. Most M&A studies in the field of social psychology can be neatly placed here.

Based on the discussions above, one may argue that these two approaches differ significantly from each other in both the theoretical and methodological senses as they deal with fundamentally different socio-cultural aspects of M&A. However, they are not mutually exclusive but rather complementary in nature, and thus can be successfully integrated into a frame of culture theories in order to gain deeper knowledge of the effects of national cultural differences in the context of CMA. To do so, we first introduce the two different concepts of culture, namely the classic and social constructivist concepts of culture, in the following sections (Gertsen, Söderberg, & Torp, 1998) (the fundamental necessities to discuss the two concepts are also given below). After that, we further deliberate on how these two concepts of culture can be meaningfully integrated.

### 2.1. The classic concept of culture<sup>1</sup> – a received view

The theoretical basis of the “value conflict” approach ultimately rests on the classic concept of culture developed by early anthropological studies which stressed the functions of culture (see Chapman, 1996; Martin, Frost, & O'Neill, 2004 for a review of the development of culture concept in organization studies). The central idea behind the classic concept of culture is that culture is an objective reality that exists “out there” in subconscious forms of basic assumptions and conscious values and norms collectively shared by a group of people (Schein, 1991). Because culture is regarded as an empirical category that is objectively identifiable, if properly observed, one can discover its core (often referred to as basic assumptions). Thus, culture is seen as being measurable. In comparative management and organizational culture research, this core is often identified by measuring the so-called “cultural dimensions” (e.g., Power Distance), which basically represent how people of different cultures respond to various fundamental dilemmas that all societies face, although in different ways (e.g., taking inequalities for granted or stressing equality) (e.g., Kluckhohn & Strodtbeck, 1961).

Culture is also considered something that does not easily change, and even if it does, it does so very slowly over a long period of time, as it is subconsciously imprinted on our minds as a desirable way to think and behave (Hofstede, 1991). It means that our values – the basic ideas about what is good/evil, safe/dangerous, normal/abnormal, rational/irrational, moral/immoral, and so on – are largely formed by our own culture, and are simply taken for granted without questioning their “true” objectivity. Since these values ultimately determine how we are going to perceive the world we live in and what kinds of meanings we are likely to attach to our experiences, virtually no one can be completely removed from the influence of his or her own culture. As Hofstede points out, culture can thus be seen as “mental programs” or “software of the mind” in that we are “programmed” by our own culture to think and act in a certain way. A large amount of previous research, in a variety of scholarly domains, has supported this idea. For example, it has been extensively documented in the field of cross-cultural management studies that the “best” managerial practice in one culture may not work at all in another culture. Also, there is a significant body of evidence indicating that people from different cultures are motivated by different needs, make decisions in different manners, and appraise different leadership styles as being effective.

<sup>1</sup> It is also referred to as “the functionalist anthropological concept of culture” in Schein (1991), “the essentialist conception of culture” in Gertsen, Söderberg, and Vaara (2000), and “the integration view” in Martin et al. (2004).

However, when two cultures collide, cultural differences become salient and members of each cultural group realize that what they have so far taken for granted as something “right” may not be “right” in another cultural context, which in turn causes high levels of stress, anxiety, hostility, and annoyance. It indicates that culture is basically non-negotiable in its nature and acculturative stress is not avoidable but rather inevitable and to a great extent predictable as well. The argument so far can be equally applied in the context of M&A to explain why cultural differences between acquiring and acquired firms often lead to internal turbulence and employee resistance. The negative effects of cultural differences are likely to be particularly strong among those belonging to the non-dominant cultural group (e.g., the acquired firm), as they are usually forced to forfeit their own culture and accept a new one.

The classic concept of culture regards national culture and organizational culture as two separate cultural entities. National culture is deeply rooted in basic assumptions which are subconsciously acquired through early socialization, whereas organizational culture involves specific values and norms which are consciously acquired in organizations (Laurent, 1983). In this vein, employees involved in CMA transactions are expected to experience more fundamental culture-dependent problems than those involved in domestic transactions, because they require bridging not only organizational cultural differences but also societal cultural differences (double-layered acculturation).

Based on the discussion so far, a number of M&A researchers argued that national cultural differences may have negative effects on post-acquisition integration, such as high turnover rates, low job satisfaction and employee resistance. The argument, often known as the cultural distance hypothesis, has been supported by a series of previous empirical research. For example, Stahl and Voigt (2008) conducted a meta-analysis of 46 M&A studies, and concluded that cultural differences had a negative effect on socio-cultural integration outcomes. From the discussion so far, we propose the following:

**Proposition 1a.** *Acquired employees may perceive national cultural differences between acquiring and acquired firms negatively, especially when differences are significantly large. As a result, national cultural differences have a negative impact on post-acquisition integration.*

However, an increasing number of M&A researchers have begun to challenge the prevailing wisdom that national cultural differences have a negative impact on post-acquisition integration. Based on the resource-based view, these researchers now regard national cultural differences not merely as a source of acculturation stress, but rather as complementary resources that create the potential for greater synergy and eventually enhance M&A performance (Brock, 2005).

One of the first M&A researchers to closely examine the positive aspects of national cultural differences in the context of CMA was Morosini et al. (1998). They argued that “the organizational routines and repertoires that lead to a firm’s sustainable competitive advantage tend to be constrained by national culture ... (and thus) acquisitions across national cultures could enhance firm performance by providing access to a valuable pool of critical routines and repertoires previously not available to the firm” (p. 140). This argument clearly suggests that it is not cultural similarities but differences that create opportunities for greater synergies. They suggested that these opportunities can be realized in two different ways: (1) learning and (2) specialization. In a similar vein, researchers adopting an organizational learning perspective have also emphasized that differences in cultures and systems between acquiring and acquired firms are likely to be beneficial as they stimulate interorganizational learning, broaden

acquiring firms’ knowledge base, and eventually decrease organizational inertia (e.g., Vermeulen & Barkema, 2001).

Furthermore, they argued that the potential disruptive impact national cultural differences have on post-acquisition integration may not be as critical as it seems, mainly because of two reasons. First, whether cultural differences are likely to lead to dysfunctional outcomes or not is largely dependent on how well post-acquisition integration processes are managed, not on how different two cultures are from each other in absolute terms. Second, it is not national but corporate cultural differences that seem to be a potential source of difficulty.

These two arguments have been supported by some M&A studies. Regarding the first argument above, the research stream that has scrutinized post-acquisition integration have successfully showed that the effects of initial cultural differences is not deterministic, and whether they are to be seen as either positive or negative largely depends on how they are actually managed (Kleppesø, 1993; Larsson & Lubatkin, 2001; Schweiger & Goulet, 2005). Larsson and Lubatkin (2001), for example, examined empirically the relationship between social controls and acculturation in the context of M&As. In their research, social controls encompass a wide range of socialization activities that acquiring firms provide for acquired employees, such as introduction programs, training, cross-visits, retreats, celebrations and similar socialization rituals. They found that social controls have a positive effect on acculturation regardless of the expectations of synergies, the relative organizational size and most importantly, differences in nationalities and culture.

Regarding the second argument, a series of studies examining both domestic and cross-border M&A failed to find any concrete evidence of double-layered acculturation in the context of CMA. Instead, these studies have found that employee resistance is generally higher in domestic rather than cross-border M&A (Larsson & Finkelstein, 1999; Larsson & Risberg, 1998; Very, Lubatkin, & Calori, 1996; Weber, 1996). In a similar vein, it is interesting to note that a large number of prior studies found that cross-border M&A generally outperform domestic M&A, which suggests that national cultural differences create the potential for greater synergy as discussed above. Based on the discussion so far, we propose the following alternative proposition:

**Proposition 1b.** *Acquired employees do not always perceive national cultural differences between acquiring and acquired firms negatively, even if differences are significantly large. On the contrary, national cultural differences may stimulate learning among acquired employees, and consequently have a positive impact on post-acquisition integration.*

When are national cultural differences then likely to be beneficial or harmful to post-acquisition integration in the context of CMA? Obviously, it seems that the classic concept of culture can no longer give us an adequate answer to this question. If cultural differences can be seen as something manageable through the active intervention of acquiring firms, and thus can be perceived either positively or negatively among acquired employees, then it means that we need to rethink the concept of culture so that it captures the “reality” in a better way. In this vein, some researchers criticized the excessive determinism of the classic concept of culture, and argued that the social constructivist concept of culture can be an alternative to properly explain the nature of culture clashes in M&A (Vaara, 2000; Risberg, 1997).

## 2.2. The social constructivist concept of culture – alternative view

In the classic concept of culture, culture is basically seen as monolithic and homogenous; thus, each individual within the same cultural group is assumed to carry more or less the same set of values.



However, in anthropology from which the classic concept of culture originated, the assumption has been heavily criticized and discarded. **Instead, a majority of contemporary cultural theorists now regard culture as a social construct and assumes that culture is essentially pragmatic and heterogeneous (see Berger & Luckmann, 1991, for a review of social construction of reality).** For example, Sahlin (1999) stated: “Still, it is astonishing . . . to claim that our intellectual ancestors constructed a notion of cultures as rigidly bounded, separated, unchanging, coherent, uniform, totalized and systematic” (p. 404). Along the same vein, a number of researchers in international cross-cultural management began to argue that the classic concept of culture is no longer useful to explain a variety of cultural phenomena in bi-national or multicultural organizations (Boyacigiller, Kleinberg, Phillips, & Sackmann, 2004).

**In the alternative view, namely the social constructivist concept of culture, culture is defined as an interpretation pattern that is kept in place by an underlying consensus in a given cultural community of meaning.** More specifically, culture is seen as being fixed or rooted in its particular social contexts, not in any immutable principles. In this regard, Delanty (2003, p. 35) stated: **“Culture is defined by use rather than properties and always requires interpretation.”** It indicates that we constantly change our culture in accordance with the particular social context being faced. As a result, we are not seen as passive “takers”, but as active “makers” of our own culture. Culture is thus negotiable, not given. Also, culture is not something concrete that does not change over time. On the contrary, it is seen as being in a state of flux without any clear boundaries. Therefore, advocates of the social constructivist concept of culture usually reject the idea that culture can be defined by references such as states or organizations: e.g., “Korean culture” or “Volvo’s corporate culture” is something unequivocal and well-defined. Instead, cultural boundaries can be drawn correctly only by carefully examining the cultural communities of meaning, created by people through communication with other people.

**The social constructivist concept of culture is not completely new to management researchers.** For instance, Meyerson and Martin (1987) named it “Paradigm 3” and argued: **“A paradigm 3 portrayal of culture cannot be characterized as generally harmonious or full of conflict. Instead, individuals share some viewpoints, disagree about some, and are ignorant of or indifferent to others. Consensus, dissensus, and confusion coexist, making it difficult to draw cultural and subcultural boundaries”** (p. 637).

Although relatively few, there have been scholarly efforts to investigate a variety of cultural phenomena from the perspective of the social constructivist concept of culture, e.g., **new culture formation in international joint ventures (IJVs) (Brannen & Salk, 2000), internal diversity in MNEs (Moore, 2003) and culture clashes in M&A (Kleppesø, 1993; Risberg, 1997, 2001).** For example, Brannen and Salk (2000) examined negotiated culture in the context of a German–Japanese joint venture and concluded: **“ . . . national cultural traits are not reliable predictors of the issues and differences that are likely to emerge when mixed-culture organizations are formed and evolve. Contextual factors such as phase of development, the particular organizational issues that arise in the operational history of a venture, as well as the cultural stances of individual team members all have significant influence on the course and nature of work culture formation”** (p. 479).

According to this view, a group of people thus belong to a certain cultural group, not because they commonly share a culturally specific set of value standards, but because they collectively – and often deliberately – seek to identify themselves with it. The result then is that the nature of culture cannot be fully understood by examining its “content” (e.g., cultural dimensions). Rather, researchers must closely examine social interactions through which culture, as a shared or partly shared interpretation

pattern, is ceaselessly created, upheld and transformed by people who identify with it. It implies that culture and identity are conceptually inseparable, or more precisely, cultural boundaries are determined by identity itself, not the other way around. People may identify themselves with a certain cultural group for a variety of reasons. However, it would be safe to argue that it is fundamentally a psychological phenomenon.

In this vein, several researchers argued that social identity theory can provide a solid theoretical basis to properly explain the cultural identification process discussed above (Boyacigiller et al., 2004). Hogg (2000, p. 225) wrote: “At the heart of social identity theory was the idea that when people define and evaluate themselves in group terms, they make intergroup social comparisons that aim to differentiate ingroup from outgroup. People do this in ingroup-favoring ways because social identity derives its valence from the evaluative properties of one’s own group relative to other groups.” This argument is equally applicable to social interactions in a given cultural group. When people negotiate the meaningfulness of the culture that they identify with, they always attempt to confirm or establish evaluative distinctiveness between the cultural group that they belong to and the one they do not (the meta-contrast principle). As discussed, people do it in an ingroup-favoring way, motivated by their underlying need for self-esteem (Turner, 1975).

**Social identity theory thus can explain why acquired employees often fail to identify themselves as members of a new group and eventually stick to an ‘us’ versus ‘them’ mentality, leading to culture clashes after acquisitions.** If they subjectively perceive their new group identity as “acquired” employees unattractive, they try to keep their old group identity, intending to raise their self-esteem. To do so, they pay close attention to any – trivial or significant – distinctive difference between acquiring and acquired firms, often including differences in value orientations, and evaluate it in an ingroup-favoring way, often exaggerating its importance, and conclude that “we are thus better than them.”

Extending the scope of the application of social identity theory, Hogg and Terry (2000) discussed how post-acquisition integration processes can be effectively managed in order to successfully integrate acquiring and acquired employees after acquisitions. They basically proposed two different kinds of social factors that may lead acquired employees to accept their new group identity and perceive it as attractive. In short, when acquired employees believe that they deserve to be acquired employees and thus can easily accept their relatively lower status compared to that of the acquiring employees – in other words, (1) the stability and legitimacy of intergroup status is high – or, feel that they can psychologically pass from acquired firms to acquiring firms – in other words, (2) the possibility of social mobility is high – then one can expect that the “us” versus “them” mentality is likely to be avoided, leading to successful post-acquisition integration (Hogg & Terry, 2000).

To sum up, the social constructivist concept of culture provides a solid theoretical explanation of why previous M&A research examining the effects of cultural differences have been inconclusive. Here, culture clashes are basically considered as identity conflicts, not value conflicts, and how differences in value orientations between acquiring and acquired employees are to be perceived is dependent on how acquired employees are to perceive their new group identities created through social interactions with acquiring employees. Therefore, one can possibly argue that initial cultural similarities or dissimilarities are not as crucial as it seems for successful post-merger integration. Further, acquiring firms cannot possibly predetermine which culture-dependent problems are likely to occur during post-acquisition integration. In addition, CMA transactions cannot be seen as being particularly more difficult than domestic ones. Based on the discussion so far, we propose the following:

**Proposition 2.** *Social identification among acquired employees moderates the relationship between national cultural differences and their resistance to post-acquisition integration. Specifically, if acquired employees successfully identify themselves as members of acquiring firms, they are likely to perceive national cultural differences as beneficial, and thus be less resistant to post-acquisition integration.*

In short, while the classic concept of culture provides a useful conceptual tool to understand the deep structure of culture in terms of cultural dimensions (a static view), the social constructivist concept of culture explains the process of culture in terms of cultural boundaries (a dynamic view). Combining these two concepts of culture, the research model can be briefly illustrated as below:

### 2.3. Integrating the two concepts of culture

Apparently, the classic and the social constructivist concepts of culture are essentially incommensurable as they are deeply rooted in fundamentally different ontological and epistemological paradigms. While the former sees culture as an objective reality that “exists” out there and thus can be studied as if it is a bit of the physical world, the latter sees it merely as a social construction of reality (e.g., Burrell & Morgan, 1979). Therefore, one may argue that they must be developed and applied separately in different scientific disciplines. However, as we have already discussed elsewhere, we believe that they are rather thought of as “two sides of the same coin” and can be meaningfully integrated to better understand a variety of cultural phenomena, including culture clashes in CMA (e.g., Schultz & Hatch, 1996).

The classic concept of culture basically assumes that group boundaries are defined by culture in that a shared sense of identity among a group of people basically originates in shared values, norms, beliefs, and customs which make a group of people distinct from other groups. In other words, “who we are” (cultural identities) is largely determined by “what we are” (cultural values). It implies that culture plays a vital role for a group, an organization, and a nation to persist; no society can possibly exist without culture, i.e., the functionalist view of culture (e.g., Parsons, 1951).

On the contrary, the social constructivist concept of culture assumes that culture must be defined by its boundaries in that culture, as a sense-making device, is constantly created, transformed, eroded, and recreated as a group of people socially interact with each other to eventually acquire or discard a shared sense of identity. Therefore, “what we are” is basically assumed to be determined by “who we are”, and not the other way around. As already discussed, vast amounts of contemporary cultural studies in anthropology have already shown that culture is not as rigidly bounded, separated, unchanging, coherent, uniform, totalized and systematic as it may seem (Barth, 1969; Sahlin, 1999).

Ultimately, the argument above poses the “chicken-and-egg” problem: Does our culture define our cultural identity or vice versa? To effectively tackle the problem, we believe that it is critical to separate the concept of culture into the two following subordinate concepts and examine how they are interrelated: (1) the contents of culture and (2) the boundaries of culture. In this vein, Nagel (1994) used the “shopping cart” metaphor to illustrate the differences between these two concepts. Studying the construction of ethnic culture, she wrote: “We can think of ethnic boundary construction as determining the shape of the shopping cart (size, number of wheels, composition, etc.); ethnic culture, then, is composed of the things we put into the cart – art, music, dress, religion, norms, beliefs, symbols, myths, customs” (p. 162). She further wrote: “Culture is not a shopping cart that comes to us already loaded with a set of historical cultural goods. Rather we

construct culture by picking and choosing items from the shelves of the past and the present” (p. 162). Here, “the shopping cart” itself denotes the boundaries of culture, and “the things we put into the cart” the contents of culture.

If the concept of culture can be meaningfully separated into its contents and boundaries, then culture clashes in CMA can be seen as multifaceted phenomena, including the (1) collision of cultural contents, e.g., values and norms and (2) the collision of cultural boundaries, e.g., organizational identities. We believe that they must be studied at the same time in order to better understand the nature of culture clashes in the context of M&A. To do so, we have proposed the research model integrating the two concepts of culture as presented above and further applied it in the actual case of CMA.

### 3. Methodology

We have chosen Volvo Construction Equipment’s acquisition of Samsung Heavy Industry’s division of construction equipment as the main subject of this study. We believe that various reasons justify why this case is ideal to achieve our research objectives. Firstly, Volvo of Sweden and Samsung of South Korea are two entities that possess significantly different national cultural backgrounds. Secondly, we expected that a majority of employees at both VCE and SHI were likely to identify themselves positively with their own company because they were – and indeed still are – one of the leading companies in their respective countries. In this vein, culture clashes were highly expected to emerge during post-acquisition integration processes. Thirdly, the acquisition itself was “clean” in a sense that these companies had no strategic alliance, vendor partnership, joint venture, or relationship whatsoever before the acquisition, and thus had no chance to learn each other’s culture.

We collected archival data from newspapers, magazines and journals, and conducted semi-structured interviews at Volvo Construction Equipment Korea (VCEK) twice after circa 2 and 13 years since the acquisition agreement was signed (July 1, 1998) (For reference, the Division of Construction Equipment in Samsung Heavy Industry was acquired by Volvo and it was transformed into VCEK). During each of the interviews, 12 and 7 employees – either managers or staff members – were contacted, respectively. However, the actual number of interviews approximately doubled because most of the interviewees were contacted at least twice in order to verify the accuracy of responses from the other interviewees. As a result, all information presented in this paper was cross-checked by a minimum of two interviewees. The interviews were conducted in either Swedish or Korean. Each interview lasted for a duration of 1–3 h.

We initially contacted a Swedish HR staff member and a Korean union leader under the premise that they were knowledgeable about the integration problems that might have occurred after the takeover, possibly with different perspectives. We also asked each of them to introduce new interviewees, preferably in different job positions. As we collected the first set of interviews, it turned out that VCEK had various subcultural groups which had experienced post-acquisition integration in significantly different ways. Thus, we classified the interviewees into several subcultural groups (Table 1) by referencing VCEK’s organization chart (Fig. 2). We contacted at least two employees from each group (one manager and one staff member).

In the second wave of interviews, however, we decided not to contact any non-Korean manager or staff member as they – except for a few engineers at the manufacturing and research facilities in Changwon – had already returned to their home countries. At the onset, we contacted a Korean HR manager, who further introduced new Korean interviewees from different departments. Six of the

**Table 1**  
Subcultural groups at Volvo Construction Equipment Korea.

	Subcultural group	Nationality of the department head
Group 1	Managers and staff members from VCE	
Group 2	Korean managers and staff members at Korea Sales Company with prior work experience from SHI	Korean
Group 3	Korean managers and staff members at Product Company with prior work experience from SHI	Korean
Group 4	Korean managers and staff members at Customer Support with prior work experience from SHI	Swedish
Group 5	Korean managers and staff members hired after the M&A without prior work experience from SHI	

seven interviewees experienced post-acquisition integration from the beginning. Also, five of them had prior work experience at Samsung. Certainly, it would have been most desirable to re-contact the same interviewees from the first wave of the interviews. We observed that more than half of them were still working at VCEK. However, most declined interviews or simply could not be reached due to various reasons (e.g., international assignment). However, two of them agreed to do follow-up interviews. Therefore, among the seven interviewees, two had originally participated in the first wave of interviews. Unlike the first set of interviews, we decided not to classify the interviewees into any subcultural group, as they shared similar views.

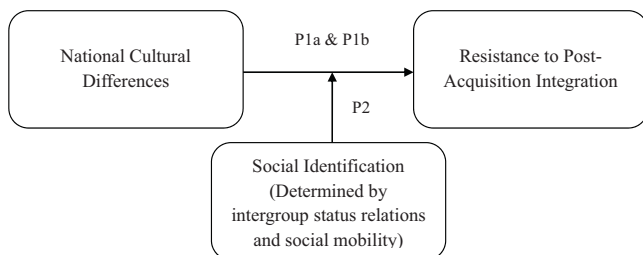
In both interviews, we avoided using the word “culture” because the word itself may mean different things to different people and thus, perhaps unnecessarily limit the scope of the interviews. Instead, we focused on personal experience, observations and evaluation of changes that took place after the acquisition across different levels of the organization. The interview protocol for both the first and the second wave of interviews is included in [Appendix A](#).

The interview protocol was basically designed to capture the holistic view of organizational and individual changes which occurred after the takeover as well as the subjective perception of these changes among the informants. During the first wave of interviews, we skipped the fourth and fifth questions for interview participants without prior work experience from SHI. Instead, we asked them about the description of their current job, and their

perception of it. During the second wave of interviews, we repeatedly asked the Korean interviewees the accuracy of the results from the first set of interviews, as most of them experienced the post-merger integration processes from the very beginning.

The interviews were tape-recorded and transcribed. For analysis purposes, we first identified the themes and topics frequently addressed by the interview participants. Several themes emerged. After that, we coded the interview transcripts, as presented in [Table 2](#), based on the two rivalry concepts of culture, and summarized the prevalence of codes in each of the categories. The coding process was performed mainly by two researchers in order to assure the reliability of the themes and topics identified. When disagreements regarding coding arose and/or the researchers deemed it necessary, informants were contacted for additional information.

Category 2 includes the somewhat impersonal evaluation of cultural differences, whereas Category 3 is related to personal feelings (often followed by relatively strong emotions) concealed behind such differences. For the analysis of the first set of interviews, the sorted transcripts from the subcultural groups were compared to determine whether the perceived changes were triggered by objective cultural differences or subjective social identity processes. The analysis of the second set of interviews followed the same procedure, except for the comparison of the subcultural groups. Finally, we systematically compared the analyses of the first and second set of interviews. Throughout the comparison process, we constantly checked the theoretical robustness of the two concepts of culture in order to minimize the possibilities of conflicting models or rival hypotheses ([Table 3](#)).



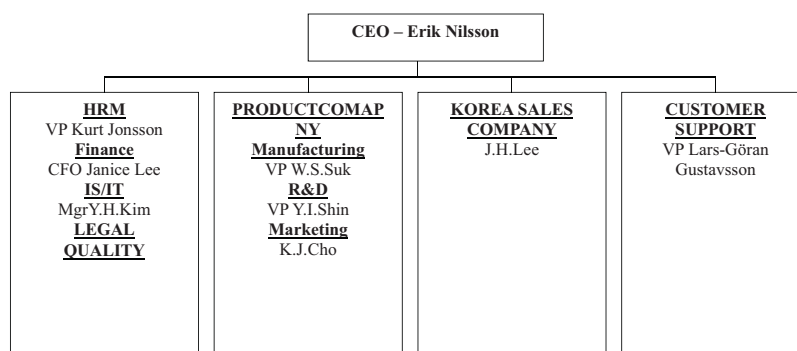
**Fig. 1.** Research model of the current study.

## 4. Results

### 4.1. Background

#### 4.1.1. Volvo Construction Equipment

Volvo Construction Equipment (VCE) became a subsidiary of the Volvo Group in 1995. In 1999, the company had 9700 employees, and its total sales and net profits were US\$2.3 billion and US\$210 million, respectively.



**Fig. 2.** Organization chart of Volvo Construction Equipment Korea (as of November 1, 2000).

Source: Internal Documents from Volvo Construction Equipment Korea.

**Table 2**

Three categories of interview responses.

Category	Example
(1) Description of changes	"A new incentive-based pay system was introduced."
(2) Evaluation of changes based on objective cultural differences	"Loyalty to the company among Korean employees has almost disappeared."
(3) Evaluation of changes based on subjective social identity processes	"I feel like I am working at a smaller company now."

#### 4.1.2. Samsung Heavy Industry

Prior to the takeover, Samsung Heavy Industry (SHI) had three major business areas: shipbuilding, construction equipment and digital techniques and eco-business. In 1997, the company's total sales volume was US\$3.2 billion; however, it suffered a net loss due to the Asian financial crisis. The Division of Construction Equipment had 2098 employees.

#### 4.1.3. Acquisition background

In 1998, the Volvo Group sold its passenger car business and focused its resources on commercial vehicles, including construction equipment. However, VCE had quality issues with its excavators: they were expensive, heavy and slow. Due to heavy demand, it was important for VCE to quickly expand its line of excavators. Field tests indicated that SHI's excavators were superior to VCE's. Although Volvo wanted to sell Samsung's excavators under the Volvo brand, SHI initially rejected the proposal because it was also seeking to expand its foreign market share. However, after the Asian financial crisis in 1997, Samsung Corporation was thoroughly restructured and thus, it decided to sell the Division of Construction Equipment in SHI. In January 1998, SHI contacted VCE through the Union Bank of Switzerland. The agreement was signed on July 1, 1998. It was one of VCE's largest acquisitions to date. In addition, it was the first time SHI sold any of its operations to a foreign company. During due diligence, SHI employees went on strike, and it was only called off when SHI agreed to provide 'extra' retirement benefits. After the deal, VCE closed its manufacturing facilities for excavators in Eslöv, Sweden. The total amount spent on the acquisition was US\$7.2 billion.

### 4.2. Results from the first set of interviews

#### 4.2.1. Changes in VCEK after the acquisition

The most important change after the acquisition was arguably an introduction of a new human resource management (HRM) policy, which fundamentally modified both the formal and informal structures of the organization.

In SHI, pay and promotion were closely related to employee tenure. Therefore, employees were usually paid and promoted on the basis of predetermined collective schemata without individual negotiations. In terms of promotion, there were 10 hierarchical titles completely decoupled from functional jobs. Pay and promotion were administered separately.

As the Swedish interviewees stated, VCE considered the seniority-based pay and promotion system ("Hobongje" in Korean) in SHI to be ineffective and thus decided to change it in order to

boost performance. First, the organization was 'flattened'. To do so, 10 hierarchical titles were reduced to 3: staff members, managers and executives. VCE expected that it would encourage Korean employees to identify themselves by their jobs, not by their titles. Second, pay was partially linked to performance. Here, on the condition that employees from SHI gave up their Korean titles, they would receive the same base pay as before as well as a bonus corresponding to roughly 10–20% of the base pay. The exact amount of the bonus was dependent upon individual performance.

These changes in HRM policies were announced as the 'Management Deal'. VCE planned to implement it initially for all Korean white-collar workers. However, this idea was strongly resisted by the Korean employees and thus applied only to certain managers. There were approximately 360 managers prior to the takeover, although a job analysis revealed that 130 managers would be sufficient to run the business. Based on this analysis, the 130 'critical' Korean managers responsible for operational functions were nominated as 'real' managers on the condition that they accepted the Management Deal. VCE stressed that it was only a temporary solution and that all Korean employees would sign the deal by 2002.

#### 4.2.2. Consequences of changes

The Korean interviewees agreed that the new HRM policy brought about some positive outcomes. They were pleased about not having to work overtime and doing 'meaningless' paperwork. They also agreed that internal communication became much more informal between different hierarchical levels. For example, the CEO could simply send an e-mail before visiting the Changwon factory, whereas prior to the takeover, it would have been appropriate to send an official notice. Similarly, a Swedish executive recalled: "It seemed it was the first time for Korean staff members to talk with an executive in such an open manner."

However, at the same time, the Korean interviewees perceived this policy to be a serious threat because their prior work experience from SHI suddenly became meaningless. They complained that there was no in-house training program available to build a career, except for some English courses. At SHI, employees' critical skills and competencies were developed through a variety of in-house career development programs. As a result, many of the Korean interviewees believed that they were being 'exploited' after the acquisition. What VCEK saw as 'rational decision making' was rather seen as an 'oppressive excuse' to exploit them. In particular, this view was strongly held by Korean managers who lost their management posts.

**Table 3**

Group comparison schema for the analysis of the first set of interviews.

	Compared Group 1	Compared Group 2
National cultural differences	The Swedish interviewees from Volvo Construction Equipment (Group 1)	The Korean interviewees (Groups 2–5)
Organizational cultural differences	The Swedish interviewees from Volvo Construction Equipment (Group 1)	The Korean interviewees with prior work experience at Samsung Heavy Industry (Groups 2–4)
Social identity processes	Each of the subcultural groups (Groups 1–5) was compared with each other. In particular, the comparison among the three departments (Groups 2–4) was of particular interest as they experienced post-acquisition integration in different ways.	

In this vein, most of the Korean interviewees emphasized negative outcomes of the new HRM policy. They argued that social cohesion within the organization weakened. While they worked for SHI, groups were more important than individuals, and thus they were encouraged to socially 'fit' into the organization. However, because employees were urged to identify themselves with their functional jobs after the acquisition, the value of a 'sticky' relationship was overlooked. In addition, a noteworthy feature was that no one was willing to take a 'gray job' any more. The 'gray job' is a daily job for which no one person is clearly responsible. A Korean staff member stated: "This job was usually done by whoever happened to finish their work earlier." They also mentioned that their loyalty to the company decreased. As the Korean interviewees without prior work experience from SHI pointed out, Samsung employees were very proud of working at Samsung. However, the Korean interviewees from SHI stated: "Now, we are working here only to make money."

#### 4.2.3. *Changes in subcultural groups after acquisition*

(1) Interviews with VCE – Although the top management officially announced in company newsletters that the company actively sought to integrate the two different cultures in order to combine their strengths, concepts and skills, the interviewees from VCE (one Swedish staff member and one Swedish executive) frequently pointed out that SHI's corporate culture was not competitive enough to survive in the global market. A Swedish staff member explained: "Our competitors are no longer Korean companies, such as Hyundai or Daewoo, but Caterpillar or Komatsu, the world's leading firms which do the same job as well as Samsung with even fewer employees. In Samsung, there was one manager for every 6 subordinates. This group is simply too small to have a manager." Therefore, the new HRM policy was considered as 'an indispensable step' to 'rationalize' the organization. In terms of the 'temporary' solution to the problems, he suggested: "Korean employees say that everything happens too fast, but we think rather it happens too slow." He also believed that other major Korean companies would follow the same steps sooner or later.

The interviewees from VCE also mentioned that employees from SHI did not seem to fully understand what VCE wanted from them. For example, VCE continually stressed the importance of teamwork. The interviewees from VCE counted mutual communication and flexible mindsets as the prerequisites for good teamwork, whereas the interviewees from SHI described teamwork as 'all in the same boat'. Similarly, a Swedish staff member recalled: "I cannot understand why they (employees from SHI) stayed at the office although they finished their job for today. Isn't it better to go home earlier?"

The interviewees from VCE stressed that the new HRM policy had been made transparently with thorough discussions with the Korean employees. VCE allowed them to organize their own labor union, which could exert a significant influence on decision-making in organizational changes. Organizing any labor union was strictly prohibited in Samsung.

In sum, the interviewees from VCE made it clear that the implementation of the new HRM policy was not something 'negotiable' because it was 'the better way' to do business in an 'objective' sense. Thus, they considered the initial resistance among employees from SHI to be a temporary problem that could be solved over time.

(2) Interviews with Korea Sales Company (KSC) – Before the acquisition, KSC was responsible for all marketing and sales activities in both international and domestic markets. However, after the acquisition, the ultimate decision-making authority for marketing and sales management was given to the regional headquarters in Singapore, and the responsibility of KSC was consequently reduced to sales only in the Korean market.

All the interviewees we met agreed that Korean employees at KSC were the ones with the most critical attitude toward the changes. They received the most direct hit by the new HRM policy because their individual performance was clearly measured by their sales amount. All the interviewees from KSC also mentioned that the organization changed so fast that they could not catch up. Many of their emotional statements reflect this criticism. For example, one of the Korean staff members at KSC complained: "These foreign executives spend 10 times more of the company's money than the Korean officers (due to the cost-of-living for expatriates). They are even about the same age as I am! It just feels like one of our foreign subsidiaries suddenly became the owner of our company, and do as they please." They also tended to look down upon VCE as a firm: "Samsung is bigger than Volvo, isn't it?" Also, a notable fact is that although Korean employees at KSC typically introduced themselves as a 'marketer', they were seen as 'salesmen' by the Swedish interviewees. A Swedish executive stated: "They do not know what marketing is, although they say that their job is marketing."

Despite the criticisms, neither work attitudes nor job performance among Korean employees at KSC worsened. A Swedish staff member submitted: "I was so surprised that they worked so hard." In this regard, a Korean staff member at KSC explained: "Although we are not satisfied with the acquisition, we are fortunate to keep our jobs after the Asian financial crisis."

In short, Korean employees at KSC experienced culture clash in the most 'drastic' way. However, it can also be argued that their negative experience was directly caused or at least partially intensified by other factors, such as the perceived meaningfulness of their job.

(3) Interviews with Product Company (PC) – Unlike those from KSC, the interviewees from PC stated that they did not experience any serious problems in their department. However, they stressed that it was not because they were especially 'friendly' to VCE, but because VCE did not aggressively enforce the implementation of the new HRM policy at PC.

Due to the inherent differences in job characteristics, the importance of official titles or positions within the organization was less emphasized at PC than at KSC. Therefore, PC was more tolerant of the current organizational change. A Korean staff member from PC explained: "Fancy-looking business cards with decent titles can be important at KSC, but not here. Also, they (employees at KSC) are much more career-focused than us. That's why they care more about the official titles than we do." He further explained: "We do not agree that Hobongje should be abolished. For now, there are no labor disputes at PC. But there is a hierarchy here in the factory as well, and I wonder what the labor union would think if it were to be eliminated."

In short, the Korean interviewees at both PC and KSC apparently wanted to protect Korea's or Samsung's corporate culture. Consequently, the cultural differences were generally perceived among them as being negative.

(4) Interviewees from Customer Support (CS) – The role of the CS department expanded after the takeover to include customer service not only for Samsung excavators sold in the Korean market but also for Volvo excavators sold worldwide. Thus, unlike KSC and PC, CS needed to quickly change the way it operated in order to fit into VCE's system, including focusing more on international operations. Before the acquisition, CS did not have its own financial statements because customer service was seen as a non-financial 'give-away'. However, VCEK emphasized the importance of the profitability of customer service. To facilitate these changes, VCEK replaced the department head (a Korean director) with a Swedish vice president with considerable experience. As a result, Korean employees in the CS department were directly exposed to intensive cultural integration.



Surprisingly, all the Korean interviewees from CS agreed with the new HRM policy. In addition, they expected that cultural differences would eventually be resolved, not intensify. A Korean manager in the CS department stated: “We are now working at Volvo. Then, we have to listen to what Volvo requires us to do.” Moreover, they appreciated the positive aspects of Volvo’s corporate culture. A Korean manager from CS explained: “Korean leaders seldom talk with their subordinates. But the atmosphere here is exactly the opposite. Foreign chiefs do their work by themselves: they make presentation papers and even do small things, such as making coffee and copies by themselves. In Korean companies, people usually work less as their position becomes higher. Also, they evaluate their subordinates much more fairly and reasonably than Korean chiefs. For instance, we thoroughly discuss who fits where best before assigning jobs. But in Korean companies, it is decided by the boss without any discussion.”

However, they shared some of the concerns expressed by the other Korean interviewees. First, they were also against the disuse of the old Korean titles from SHI. A Korean staff member from CS explained: “I think the titles should remain because all other Korean firms have similar titles.” Second, they also criticized VCEK’s hesitation in investing in human capital (e.g., career development programs). Third, they accused VCEK of being indiscreet in addressing cultural differences. A Korean manager from CS argued: “Foreign executive and staff members were aware that cultural differences might cause some serious problems. To avoid them, they even studied Korean culture before the takeover. However, it seems that their understanding of our culture is superficial. Quite often, they make decisions that cannot be easily accepted in the context of Korean culture. After that, they try to convince us why we have to follow their decisions – often by arguing that the company is bleeding and that it is the only way to enhance performance. One cannot change culture simply by arguing what is right and wrong. Instead, it is a matter that goes beyond logic.” In short, the interviewees from CS had a balanced view regarding the HR-related problems.

(5) Interviewees without prior experience at Samsung – After the takeover, VCEK recruited several Korean employees. None of these employees had worked at Samsung and thus, they were expected to have a more ‘objective’ attitude toward the organizational changes. The interviewees of this subgroup consisted of two female secretaries. They all signed the Management Deal because it was one of the requirements for employment.

They understood why Korean employees at SHI were dissatisfied with the new HRM policy and supported the labor union’s arguments. However, they also criticized the inefficiency of Samsung’s corporate culture. One of the interviewees explained: “What Volvo wants to do in our company is something strange and can cause a lot of problems. Personally, I have no complaints regarding Volvo’s actions at this time, but I also understand why so

many Korean employees feel threatened.” She further explained: “In Korea, employees from Samsung are usually known for superior job performance. However, I do not think that they do a particularly good job.” Both of the interviewees mentioned that Korean employees from SHI often advised them to quit VCEK and build a new career at another Korean company. It was worthy of notice that there seemed to be an ‘invisible barrier’ between Korean employees from SHI and new Korean recruits. A Korean staff member from SHI submitted: “We recently recruited two interpreters. But they are neither Korean nor European in that they sometimes act just like a non-Korean.”

As expected, the interviewees without prior experience at Samsung tended to be more culturally ‘neutral’ at least in terms of the corporate culture. However, they also shared some of the concerns as all of the Korean interviewees from SHI.

The interviews are summarized as follows (Table 4).

#### 4.3. Results from the second set of interviews

##### 4.3.1. Overall changes in VCEK after the first wave of interviews

According to the financial statements, the acquisition has been very successful. For instance, VCEK’s total revenue has grown to approximately 7 times its size from 1999 to 2011. The absolute majority of the interviewees also agreed that the acquisition was a great success. For example, a Korean manager stated: “Volvo bought a bleeding company and made it profitable, which should be highly appreciated.” The second set of interviews as well as other internal and external sources revealed that VCEK has gone through a series of organizational changes since the first wave of interviews. First, the vice president of manufacturing, with prior work experience at SHI (Mr. W. S. Suk; see Fig. 1), was appointed as the first Korean CEO of VCEK in 2009. After the appointment, many non-Korean managers and staff members returned to their home countries. Second, heavy investments were made in manufacturing and research facilities in Changwon. Third, the organizational structure of VCE changed from a matrix to a multidivisional structure, which in turn affected the organizational structure of VCEK. When the first set of interviews was conducted, KSC, PC and CS were managed as independent companies within the VCEK network. However, they were reorganized to be more centrally controlled (e.g., KSC and CS were merged into ‘Korea Sales and Service’).

The struggle between the top management and the labor union concerning the introduction of the Management Deal ended as the former accepted most of the demands by the latter. It means that ‘Hobongje’ would be left intact for all union members, mostly employees from SHI. According to the interview results, VCEK’s top management tried to ‘correct’ the problem; however, as they left Korea, all such attempts ceased. In this regard, one of the interviewees at the Seoul office mentioned: “Now our company became more independent. Volvo doesn’t seem to care as long as

**Table 4**  
Summary of the first set of interviews.

	Acculturation stress level	Job description change	Perceived social status before and after the takeover	Summary
VCE (non-Korean)				Samsung’s corporate culture is not competitive. The organization must change.
Korea Sales Company (Korean)	High	Low	High→low	Samsung’s corporate culture must be accepted. We already lost too much.
Product Company (Korean)	Low	Low	Unchanged	There has been no major change so far. However, we do not agree with Volvo.
Customer Support (Korean)	High	High	Low→high	We work at Volvo and thus we have to abide by its decisions. What Volvo wants is not wrong.
New Korean recruits (Korean)				We understand what Volvo wants. However, we also understand why some people from Samsung dislike Volvo.

the company generates profits.” Also, the CEO of VCE officially commented in a newspaper interview: “Performance-related pay system is not suitable in Korea where many employees work overtime.”

However, the interviewees accustomed to the Western system were not satisfied with the current HRM regulation. One of the interviewees complained: “Most of the union leaders are senior employees from SHI and they prefer a *Hobongje* as it secures their employment and pays them more. That’s why the labor union wants to maintain the *Hobongje*. However, I think it is better to abolish it.” Another interviewee also stated: “I know a Chinese employee in VCE China who gets paid more than me even though I served Volvo longer and we do exactly the same job! Such a thing happens because we still have the *Hobongje*.” The comments imply that Korean employees began to think and behave similar to ‘Western’ employees or, as they say, they were “*Volvolized*.” The absolute majority of the interviewees agreed on it without hesitation. In this vein, a series of organizational problems identified in the first set of interviews were not seen as ‘problems’ at all. For example, in the first set of interviews, the Korean interviewees heavily criticized the lack of an in-house career development program and thus complained that they were being exploited by VCE. However, in the second set of interviews, their responses were completely opposite. One of the Korean interviewees at the Seoul office explained: “Indeed, Samsung offers better workplace education programs than Volvo. However, I have plenty of time here at Volvo to develop my own skills and competencies, which are also fairly recognized and evaluated within the organization for better job opportunities. In short, as long as I get my job done well, everything will be fine. Overall, I’m satisfied with the current situation.”

Such an attitude change could be observed in a variety of organizational contexts. As an example, the prevalence of individualism and the weakening of social cohesion were not considered to be problematic in the second set of interviews. One of the Korean interviewees at the Changwon factory, previously from PC, stated: “One of the biggest changes after the takeover is that we now decide what to work on. In Samsung, when directions were given, we merely followed them. In contrast, we thoroughly discuss and decide whether these directions are plausible here in Volvo. I think it leads to better decision-making as well.” Another Korean interviewee at the Changwon research center also mentioned: “Here, everybody does their job by themselves, including trivial chores such as copying papers and making coffee. Not even the CEO is an exception.” In short, all the interviewees began to identify themselves by their jobs, not by their titles.

Despite the attitude changes, we could also find evidence that Korean employees were not completely ‘westernized.’ Many of the interviewees stressed the importance of, e.g., saving face, behaving politely to senior employees, and having ‘sticky’ relationships within workplaces. In addition, there were some good reasons to believe that they did not yet perfectly identify themselves as ‘genuine’ Volvo employees either. One of the Korean interviewees at the Seoul office said: “We are unwilling to talk about our own problems outside the company.” In this vein, it is interesting to point out that several Korean interviewees saw VCEK as an independent firm, not a subsidiary of a ‘foreign’ firm. For example, a Korean employee at the Seoul office stated: “At first, we worried about being subordinate to Volvo. But it did not happen. I can tell that VCEK still remains as a Korean firm.” Lastly, the ‘invisible’ barrier between Korean employees from SHI and new Korean recruits could not be observed during the second wave of interviews.

#### 4.3.2. *Reasons behind the attitude change among Korean interviewees*

Korean interviewees with prior work experience from SHI usually saw the attitude change described above as a result of the

struggle between top management and the labor union. The transparency and openness of post-acquisition integration was also frequently mentioned.

However, Korean interviewees without prior work experience from SHI saw it in slightly different ways. The Korean HR manager we initially contacted stated: “I think that Volvo was tolerant and accepting of foreign cultures. Before I came here, I had worked at an American company. There, we were forced to accept its management style without exception. In short, it was my way or the highway. Unlike that company, Volvo never tried to do that.” Similarly, another interviewee at the Seoul office mentioned: “The average age of employees in the sales department is getting older and older and they become like government officials who never listen to customers. There are at least two reasons, I believe. First, even if they sell a lot, they only get small incentives. Second, even if they sell less, their job security is firmly assured thanks to the labor union. Also, I don’t think that they have a lot of pressure at work. No wonder they changed their minds and became friendly to Volvo. They cannot complain. Rather, they should thank Volvo.”

These two interviewees also argued that post-acquisition integration was difficult particularly at the onset because employees from SHI felt a strong sense of deprivation as they lost their job at Samsung, one of the biggest companies in South Korea: “Those from Samsung were very proud to once be Samsung employees. Therefore, they felt that they lost too much after the takeover, which led them to resist accepting Volvo’s corporate culture for a long time.”

To sum up, VCE could successfully integrate SHI because the former transparently negotiated with the latter and, if necessary, accepted the latter’s demands which – perhaps from the former’s view – could be seen as rather ‘unreasonable’ in a given social context.

## 5. Discussions and conclusions

### 5.1. *The classic concept of culture*

During the early stage of post-acquisition integration, the Swedish and Korean interviewees explicitly held two conflicting opinions regarding certain HRM-related issues (e.g., promotion and incentive pay), which led to various organizational problems both individually at the workplace and collectively in labor relations. Both the Swedish and Korean interviewees expressed their concern about cultural differences, and spent a considerable amount of time trying to explain how ‘we’ were different from ‘them’ and complain why ‘they’ did not understand ‘us’.

Proposition 1a suggests that acquired employees perceive national cultural differences in CMA negatively, leading to culture clashes during post-acquisition integration processes. The proposition itself is derived from the classic concept of culture, which looks upon culture clashes as value conflicts. In other words, if acquiring and acquired firms significantly differ from each other in terms of value orientations, e.g., different national cultures, culture clashes are largely inevitable and consequently a variety of integration issues are likely to take place.

In order to test Proposition 1a in a systematic manner, we compared the self-reported cultural differences identified during the first set of interviews with Hofstede’s study of national work-related values. For this, we sorted the results from the first set of interviews according to the cultural differences that the majority of the interviewees – both Swedish and Korean – agreed upon (e.g., the organizational structure is more hierarchical at SHI than at VCE). Then, we matched these cultural differences against the cultural dimensions outlined in Hofstede’s study (e.g., Power Distance is greater for SHI than for VCE). Finally, we determined whether the results were consistent with the actual findings of

Hofstede's study. Fig. 3 presents the final results. The index scores of Sweden and Korea in Hofstede's study are fully consistent with the cultural differences identified in the first set of interviews, which suggests the predictability of the culture-dependent problems at VCEK. Although Hofstede's study has often been criticized for being outdated (and thus misleading), a notable fact is that it could still correctly predict the cultural differences between VCE and SHI.

As clearly shown in Fig. 3, Hofstede's study explains the underlying reason for the culture clash observed during the first wave of interviews. To sum up, it seems quite clear that the culture clash in VCEK fundamentally stemmed from two conflicting assumptions about which kind of company is 'normal'. For many of the Korean interviewees, a firm was seen as being 'normal' when it could 'protect' its employees. In return, they were unquestionably loyal to their firm. It explains why most of the Korean interviewees shed light on the importance of in-house training programs. They possibly perceived the lack of in-house training programs in VCEK as VCE's indifference to its employees.

In addition, the absolute majority of Korean interviewees described a 'normal' firm as a social group, not a system (Trompenaars & Hampden-Turner, 1997). For instance, they clearly showed deep disappointment that a 'sticky' relationship at their workplace disappeared and no one really cared about a 'grey' job anymore since the takeover. On the contrary, Swedish employees clearly tended to describe a 'normal' firm as a system, not a social group.

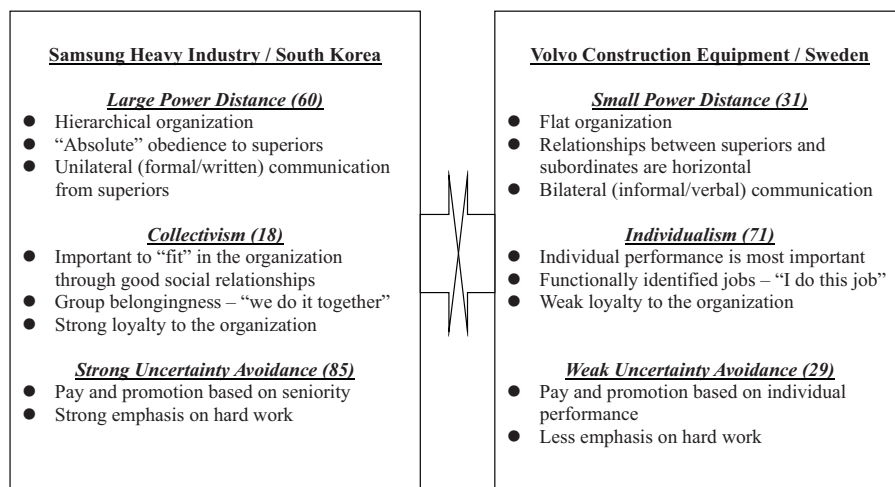
Based on the classic concept of culture, a group of researchers argued that the inability to comprehend another cultural value is perfectly natural and culture clashes are thus basically inevitable when two firms with substantially different cultural backgrounds merge. A large part of the interview results in the first set of interviews points out that the majority of both Swedish and Korean interviewees indeed failed to understand their partner's intrinsic values underlying national cultural dimensions. For example, the Swedish interviewees did not seem to fully understand why most of the Korean employees wanted to maintain their old Korean titles instead of receiving an extra bonus. Apparently, they failed to understand the social meanings attached to such titles in the context of Korean firms. The Korean interviewees did not seem to understand either why VCEK's management urged them to identify themselves in terms of their jobs, not by their positions.

If culture clashes are inevitable, one can possibly argue that even if one fully understands how his or her own culture differs from another, it is unlikely that it will make it easier for him or her to accept another culture as his or her own. Some of the interview results support the argument as well. For example, VCEK's top management was cautious that cultural differences might lead to dysfunctional behavior among Korean employees since the very beginning of the acquisition. To address the problem, they even studied Korean culture before the takeover. However, the absolute majority of the Korean interviewees stated that the foreign management did not seem to fully understand Korean culture. We believe that the discrepancy results from neither a lack of cultural knowledge among VCEK's management nor highly critical attitudes among Korean employees. It was simply normal and inevitable. It suggests that although one can possibly predict which organizational problems may occur during post-merger integration processes through a careful examination of cultural differences, such problems can hardly be avoided. Overall, the analysis above supports Proposition 1a.

However, as suggested in Proposition 1b, another group of M&A researchers argued that national cultural differences in CMA can be seen as being rather beneficial as they can create the potential for greater synergy. Theoretically, the explanation is parallel to the resource-based view in which different national cultures can be seen as a great source of resource complementarity between acquiring and acquired firms. Some of the interview results support this argument.

In the first set of interviews, we observed that the Korean interviewees in different subcultural groups perceived the cultural differences differently and some of them even considered them as a source of greater synergy effects. For example, the Korean interviewees from CS perceived the cultural differences far more positively than any other Korean interviewees from KSC or PC, arguing that the 'Western' way of doing business is more transparent, democratic, and efficient than the 'Korean' way. Although they also blamed the cultural differences for causing a variety of difficulties discussed above, it was more like constructive – rather than negative – criticism. The newly recruited Korean employees basically shared the same view, suggesting that Volvo had done nothing wrong during the post-merger integration.

We could also observe a similar pattern among the Swedish interviewees. Although they strongly emphasized the inefficiency



**Fig. 3.** The culture clash between VCE and SHI based on Hofstede's cultural dimensions at the beginning of the takeover. *Notes.* (1) The two-digit numbers in parentheses denote the index scores for the cultural dimensions for Sweden and Korea in Hofstede's study. (2) The cultural dimensions of Individualism versus Collectivism were measured by the individualism index scores or the so-called "IDV scores." Therefore, Sweden's high IDV score (71) indicates that Swedish workers tend to be highly individualistic. On the other hand, Korea's low IDV score (18) indicates that Korean workers tend to be more collectivistic. (3) Because the cultural dimensions masculinity and femininity were not relevant to any of the interview results, they were excluded from the analysis.

of Korean culture in business contexts, they highly appreciated Korean employees' hard-working attitude. The interview with VCEK's CEO published in a Korean newspaper indicates that VCEK's top management was well aware of it, and expected that the combination of the 'superior' managerial routines from VCE and the hard-working Korean employees from SHI would lead to positive synergies and even boost M&A performance. The positive perception of the cultural differences among Korean employees was easily observable in the second set of interviews as well. All the Korean employees we interviewed did not hesitate to admit the strength of Western work-related values. These observations provide support for [Proposition 1b](#).

The discussion above suggests that both the positive and the negative view of national cultural differences are equally valid, at least to some extent. However, both of the views fail to explain exactly when employees in merged organizations are likely to perceive cultural differences either positively or negatively. One possible (also popular) explanation is that acquired employees usually perceive cultural differences negatively at the beginning, but the negative effects can be lessened through the learning process. For instance, Korean employees from SHI, perhaps in their daily work, learned how employees from VCE think and behave, and as a result, accepted it as their own in order to survive in the organization. Also, those who could not accept it perhaps quit their job early on, which further accelerated the process of cultural change. However, the same cultural phenomena can be properly explained in quite a different way as well from the perspective of the social constructivist concept of culture.

### 5.2. *The social constructivist concept of culture*

One of the most obvious empirical phenomena observed in the first set of interviews is that the Korean interviewees from different subcultural groups considered the attractiveness of being a member of VCEK somewhat differently. It warrants a closer examination because the subjective perception of membership seemed not only to determine their willingness to accept VCEK's Western work-related values but also, more importantly, to intensify, mollify or even nullify various organization-wide problems resulting from the 'objective' cultural differences within each subcultural group.

Social identity theory argues that when acquired employees make intergroup social comparisons to define themselves as members of either acquiring or acquired firms, the stability and legitimacy of intergroup status relations and the possibility of social mobility play a vital role. Some of the interview results strongly support this argument. For example, the Korean interviewees from CS described their self-images as being far more positive after than before the acquisition due to the increased importance of their job. This explains why they began to feel more positively as members of VCEK; the possibility of social mobility was relatively high. By contrast, the self-images of Korean employees at KSC were severely damaged because their perceived social status within the organization weakened as a result of KSC being made to report to the Singapore headquarters; they were no longer seen as 'fancy-looking marketers', but as 'humble salesmen'. As a result, they showed a strong in-group favoritism to protect their self-esteem, claiming that they did not desire to be acquired employees. In other words, the stability and legitimacy of intergroup status relations were relatively low. At PC, however, Korean employees were neither 'friendly' nor 'hostile' as their existing self-images largely remained intact. VCE decided not to dramatically change PC's organization and system, and consequently, PC employees lacked opportunities, especially in the early stage of post-acquisition integration, to communicate with employees from VCE in order to create their new self-images.

The case of CS is particularly interesting. A number of M&A researchers who studied the role of post-acquisition integration processes repeatedly argued that it is crucial for acquiring firms to keep integration levels low and granting a considerable degree of autonomy to the acquired employees when cultural differences are significant. However, the interview results question this argument. The Korean interviewees from CS experienced the highest level of post-merger integration from the very beginning and their autonomy was totally removed as the new Swedish CEO took over the department. However, the perception of cultural differences among them was much more positive compared to the other Korean interviewees.

The drastic attitude change toward the cultural differences among the Korean interviewees at the Seoul office (who previously worked at KSC) in the second set of interviews can also be explained from the perspective of the social constructivist concept of culture. As VCEK's top management decided to keep KSC as it was without significant changes, they possibly felt their social status stable and legitimate, which in turn created favorable conditions for intercultural learning. The interview results indicate that although they were completely "Volvolized", they identified themselves as being independent from Volvo. For example, they repeatedly stressed that VCEK was not 'merely' one of the foreign subsidiaries of VCE but an independent Korean firm. Also, in both the first and the second wave of interviews, the Korean interviewees without prior work experience from SHI pointed out that the employees from SHI were very proud of themselves as Samsung employees, which made post-acquisition integration unnecessarily difficult. The Korean interviewees from SHI mentioned it as well rather casually: "Samsung is bigger than Volvo, isn't it?"

Based on the discussion so far, Proposition 2 is supported. More specifically, the perception of cultural differences is not pre-determined, but dependent on the particular social context that each subcultural group faces; hence, whether culture clashes may occur or not cannot be explained solely by the 'objective' cultural differences. Further, it suggests that it is practically impossible to predict which culture-dependent problems might occur before two groups of people are brought together and begin to interact with each other. In addition, because the occurrence of such problems is dependent on how social interactions unfold, they can always be avoided regardless of the degree of cultural differences. As a result, the classic concept and the social constructivist concept of culture seem to explain the same cultural phenomena from two different angles. While the classic concept of culture correctly predicts what kinds of culture-dependent problems may occur during post-acquisition integration, the social constructivist concept of culture can better predict whether or not these problems may occur.

### 5.3. *Conclusion*

There has been much debate about the effects of national cultural differences on post-merger integration in the field of M&A research. While some argued that the negative effects of national cultural differences are largely a given, and thus a firm should avoid acquiring another firm when their cultural compatibility is notably low, others argued that national cultural differences are 'manageable' through thoughtfully designed post-merger integration processes, e.g., open communication, managerial integrity, mutual respect, etc.

Based on our findings, we suggest that national cultural differences possibly have a negative effect on post-merger integration in that acquired employees are likely to experience serious acculturation stress. However, we also do believe that, how cultural differences are to be perceived is largely dependent upon



whether acquired employees perceive their newly created self-images to be more attractive. It also suggests that the intensity and speed of post-merger integration may not be as critical as it may seem.

In this regard, Kanter and Corn (1994) argued: “Cultural differences do not automatically cause tensions. But when tensions do arise – often due to situational factors such as lack of communication or poor performance – people blame many of the organizational difficulties they encounter on cultural heterogeneity – on the presence of others who seem different – rather than to the context within which these problems took place” (p. 19). In this study, these ‘situational factors’ are explained and analyzed in terms of social identity theory.

To sum up, we have clearly shown in our paper that all the propositions based on different theoretical bases are at least to some extent supported, which in turn suggests that culture clashes in CMA are essentially multifaceted in nature. More specifically, while the classic concept of culture – the value conflict approach – is useful to predict what kinds of opportunities or threats acquiring managers can possibly expect due to cultural differences during post-acquisition integration processes, the social constructivist concept of culture – the identity conflict approach – is far more useful to correctly predict whether these opportunities or threats are to be actually realized, or not.

The majority of previous M&A research has so far examined the impact of culture differences on post-acquisition integration from a single concept of culture. However, based on the results of the current study, we strongly argue that one can gain a better understanding concerning this issue using the multiple concepts of culture.

In this vein, the current study contributes to the existing body of knowledge in the field of M&A research by showing how the two concepts of culture can be meaningfully integrated, which in turn is crystallized into the research model. We believe it can significantly enhance the academic understanding of the effects of national cultural differences on post-acquisition integration in CMA.

The influence of national cultural differences has been one of the most widely researched, yet still a most intriguing topic, in international business dialogs. Considering this fact, the theoretical framework presented in this study can effectively be applied to better understand a variety of cultural issues in the international business domain. As already argued by several cross-cultural management researchers (e.g., Söderberg & Holden, 2002), although cultural studies in sociology and anthropology have so far developed a range of different conceptualizations of culture that can effectively shed light upon the multifaceted nature of culture, most studies in international business still tend to see culture merely as a coherent value system that does not change so easily and has a simple unidirectional effect on group members’ perception, attitude, and behavior. Based on our findings, we successfully fill the current research gap by bridging two different research streams residing in business studies and social psychology, which have largely been considered as two sides of the same coin possessing both similarity and heterogeneity.

For M&A practitioners, the findings in this study also cast doubt on the usefulness of ‘conventional’ cross-cultural training programs (which are often designed to deliver ‘objective’ knowledge about various differences between two distinctive national cultures) in the context of CMA. Although cultural differences per se are often blamed when ‘things go wrong’, it may be only a superficial understanding – a loophole for retrospective rationalization. Also, the findings can be also seen as empirical evidence that support the HRM convergence in Asian countries (Rowley & Benson, 2002). Although national cultural differences have been often seen as one of the most significant obstacles for successful

HRM convergence, their impact is not as straight-forward as it may seem.

The discussion above leads to the following managerial implications. Firstly, acquired managers should keep in mind that whether national cultural differences in the context of CMA are to be beneficial or detrimental largely depends on how post-acquisition integration processes actually unfold. Specifically, developmental changes in acquired employees’ perception of self-image during post-acquisition integration processes play a crucial role in successful post-acquisition integration. Secondly, it is extremely important for acquired managers to correctly understand how acquired employees perceive a variety of socio-cultural contexts surrounding acquisitions when planning how acquiring and acquired firms are to be integrated, e.g., whether acquired employees believe that they want to be acquired, or not. If necessary, it is perhaps a good idea for acquiring firms to implement ‘two-track’ integration strategies for different sub-groups within acquired firms.

Despite the implications, we acknowledge that this paper suffers some methodological limitations. Some of these limitations reflect traditional criticisms regarding positivism and interpretivism, such as the use of a small sample, the validity of the interview results, and the reliability of the interpretations. Other limitations are more unique to this study.

First, subcultural groups could have been classified more comprehensively. For example, they could be classified into horizontal (functions, occupations and jobs) and vertical (high and low status) subculture groups. Second, it is possible that we missed other important cultural issues that the interviewees did not want to reveal. To address such problems, we could have used other methods such as direct observation or participation. Lastly, some of the Korean employees who could not accept the organizational changes perhaps changed jobs, and the second set of interviews thus could have a sampling bias. However, we believe that chances are few, mainly because (1) all the interviewees – including those we contacted twice both in the first and second wave of interviews – agreed that the interview results reflect quite well what actually happened at VCEK, and (2) the interview results and the secondary sources, such as newspaper articles, research reports and information about the post-merger integration, at VCEK match well.

As a future research avenue, we encourage researchers to address these issues to provide a better understanding of the effects of cultural differences in CMA.

## Appendix A. The interview protocol for the first and the second set of interviews

- (1) Questions about basic information of interview participants:
  - Name, title, years of service, personal background, etc.
- (2) Questions about organizational changes after the acquisition/the first wave of interviews:
  - What kinds of organizational changes have occurred in your company and/or department?
  - Why do you think they have occurred, and what is the result?
  - How have they actually been carried out?
- (3) Questions about personal opinions of the organizational changes:
  - What do you personally think and/or feel about the organizational changes?
- (4) Questions about changes in job description after the acquisition/the first wave of interviews:
  - Has your job changed since the acquisition, and if so, how?

- (5) Questions about personal opinions of the changes in job description:
- How do you think and/or feel about the changes in your job description after the acquisition?

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