

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

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### **Abstract:**

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

**Keywords:** Acquisitions; Mergers; M&A; Culture; Cultural differences; Acculturation; Conflict

### **Article:**

#### ***Introduction***

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

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

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

Hence, this study focuses on explaining the antecedents of one important aspect of the people dimension, post-acquisition conflict. Post-acquisition conflict is defined as disruptive inter-group tensions stemming from the

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

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

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

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

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

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

## Literature review

### Key concepts

#### Mergers vs. acquisitions

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

#### Domestic vs. international acquisitions

A domestic acquisition is defined as an acquisition in which the headquarters of the acquirer and the acquired firm are in the same country. An international acquisition is defined as an acquisition in which the headquarters of the acquirer and the acquired firm are located in different countries (Shimizu, Hitt, Vaidyanath, & Pisano, 2004).<sup>2</sup> This study focuses on both domestic and international acquisitions in order to explore the impact of both national and organizational cultural differences.

#### Post-acquisition conflict

Within the literature on the people dimension in acquisitions, inter-group tensions following an acquisition are discussed under several slightly different labels. Building on the general acculturation theory of Berry (1980), Nahavandi and Malekzadeh (1988) use the term “acculturative stress” to describe post-acquisition behaviors and experiences that are disruptive. Similarly, “culture clash” refers to the negative emotional reactions of organizational members towards the acquisition (Elsass It Veiga, 1994) while the “merger syndrome” consists of feelings of uncertainty and insecurity as a result of the acquisition (Marks It Mirvis, 1985). Cartwright and Cooper (1993) introduced the term “culture collision” to describe organizational problems that result from a poor cultural integration of the acquiring and acquired firms. Buono and Bowditch (1989) refer to power struggles whereas Newman and Krzystofiak (1993) talk about dissatisfaction and disloyalty.

All these concepts describe the different aspects of intergroup conflict in terms of “us” vs. “them” mentality that results from the acquisition. Because of the wide variety of terminology used in the previous research and the lack of one established dominant concept, this article defines disruptive inter-group tensions collectively as *post-acquisition conflict*.

#### The development of people and cultural dimensions on acquisitions

Early studies on acquisitions in the management literature concentrated mainly on explaining the impact of strategic fit on post-acquisition performance. Strategic fit can broadly be understood as the strategic compatibility of the acquiring and acquired firms’ operations (Haspeslagh & Jemison, 1991). Based on the literature on diversification and industrial organization these researchers argued that strategic fit can be beneficial in acquisitions since it provides greater synergies that enable the firms to operate more efficiently and/or more effectively (e.g. Chatterjee, 1986; Lubatkin, 1983, 1987). Later studies explored strategic fit in acquisitions in more detail (e.g. Harris & Ravenscraft, 1991; Haspeslagh & Jemison, 1991; Seth, Song, & Pettit, 2002).

However, strategic fit could explain only a part of the variance in acquisition performance; this suggested a need for complementary explanations. In the 1980s a new trend started to emerge that emphasized the people dimension in acquisition outcomes (For early studies on the people dimension, see Buono & Bowditch, 1989; Napier, 1989; Schweiger, Ivancevich, & Power, 1987). Instead of concentrating on linking strategic fit and performance, studies focusing on the people dimension attempted to explain both the antecedents and consequences of the mostly negative psychological and behavioral responses of organizational members to

acquisitions.<sup>3</sup>

In terms of the people dimension, acquisitions have several characteristics that can trigger negative reactions by organizational members. First, organizational members lack a sense of control in acquisitions (DeNisi & Shin, 2005). Second, acquisitions increase uncertainty on the part of organizational members about the future and fears of losing their jobs (DeNisi & Shin, 2005; Van Dick, Ullrich, & Tissington, 2006). Third, acquisitions threaten the existing group values, structures, and social identity (Bartels, Douwes, de Jong, & Pruyn, 2006; DeNisi & Shin, 2005; Van Dick et al., 2006).

The people dimension further linked negative employee reactions to negative overall performance. For instance, top management turnover and acculturative stress have been linked to negative perceptions of stock market and accounting outcomes (Cannella & Hambrick, 1993; Veryet al., 1996). Further, DeNisi and Shin (2005) proposed that the resistance of employees to change, low levels of commitment, and higher rates of employee turnover hindered the goal achievement. Similarly, Larsson and Finkelstein (1999) showed that employee resistance decreased synergy realization. In conclusion, according to the literature on the people dimension, it is the people and their psychological and behavioral reactions to acquisitions that are critical to the success or failure of acquisitions (Buono & Bowditch, 1989; Cartwright & Cooper, 1990, 1993, 1996; Marks & Mirvis, 1985, 2001; Newman & Krzystofiak, 1993; Panchal & Cartwright, 2001; Sinetar, 1981; Van Dick et al., 2006).

Closely related, the cultural dimension has its roots in these reflections on the people dimension. Based on research on the people dimension, researchers began to analyze mergers and acquisitions from a distinctively cultural perspective in the mid-1980s. This was related to a simultaneous increase in interest in culture in general management literature after Peters and Waterman (1982) linked culture to firm performance and Barney (1986) suggested that culture was a source of competitive advantage. Although cultural discourse on acquisitions draws strongly from the strategic fit literature and particularly from the people dimension, it has gradually emerged as a new stream of acquisition research.

Researchers within the cultural dimension also emphasize the people dimension, but cultural variables and their impact on various acquisition outcomes became the particular focus of this perspective. Whereas the strategic fit perspective views post-acquisition integration mainly as the integration of resources and the people dimension sees integration primarily as the integration of people, cultural perspective considers integration as acculturation—the integration of two cultures. Thus, the cultural dimension primarily highlights the role that cultural factors such as cultural differences and other cultural characteristics play as antecedents of different post-acquisition outcomes.

The case studies of Sales and Mirvis (1984) and Buono, Bowditch, and Lewis (1985) were amongst the first studies that empirically explored the role of culture in acquisitions. Sales and Mirvis (1984) identified cultural domination as a factor that increased change resistance in acquisitions, while Buono et al. (1985) conceptualized acquisition as an attempt to combine different organizational cultures. In the context of foreign acquisitions, Napier, Schweiger, and Kosglow (1993) and Olie (1994) were the first to examine foreign acquisitions in case studies. Napier et al. (1993) examined how to manage diversity in foreign acquisitions and underlined the importance of understanding the implications of organizational and cultural diversity while Olie (1994) explored in detail the difficulties stemming from national cultural differences in Dutch—German acquisitions. Olie (1994) found that national cultural differences most often increased integration problems. He presented the same conclusion in a later case study of foreign acquisitions (Olie, 2005).

More recent case studies on culture often have had a broader focus. For example, Zaheer et al. (2003) explored the role of both culture and identity in acquisitions, Risberg (2001) discussed how employees interpret the post-acquisition integration process and Hasegawa (2000) and Blaško, Netter, and Sinkey (2000) linked culture to knowledge transfer and value creation. Case studies on foreign acquisitions have also become more common. For instance, Nummela (2005) described the integration of foreign acquisitions from a cultural perspective and demonstrated the versatility of integration, Sääntti (2001) explored the role of both national and organizational

cultures, and Fang, Fridh, and Schultzberg (2004) examined failure in culturally close acquisitions.

Some studies have combined both quantitative and qualitative approaches. Bresman, Birkinshaw, and Nobel (1999) explored knowledge transfer in international acquisitions through both survey and interviews. They identified national cultural distance as a factor that contributed to misunderstandings between individuals (Bresman et al., 1999). In addition, by examining three acquisitions in detail, Birkinshaw et al. (2000) discovered the importance of human integration as a mechanism for the achievement of cultural convergence and mutual respect.

Quantitative research has focused mainly on examining the impact of cultural differences. Quantitative studies have concentrated both on the impact of national cultural differences (Birkinshaw et al., 2000; Bresman et al., 1999; Brock, 2005; Calori, Lubatkin, & Very, 1994; Datta & Puia, 1995; Larsson & Finkelstein, 1999; Larsson & Risberg, 1998; Lubatkin, Calori, Very, & Veiga, 1998; Morosini, Shane, & Singh, 1994, 1998; Schoenberg, 2004; Slangen, 2006; Weber et al., 1996) and organizational cultural differences (Datta, 1991; Weber, 1996; Weber et al., 1996; Weber & Camerer, 2003). Studies have also included factors related to acculturation process (Larsson, 1993; Pablo, 1994; Very et al., 1996; Very, Lubatkin, Calori, & Veiga, 1997), cultural integration (Birkinshaw et al., 2000; Kavanagh & Ashkanasy, 2006), and cultural learning (Schweiger & Goulet, 2005).

Recently, studies taking a discursive approach have also contributed to the cultural dimension. Through discourse analysis, these studies have attempted to uncover deeper levels of culture by exploring cognitive challenges and stereotyping related to culture (for examples of this approach, see Gertsen & Söderberg, 2000; Riad, 2005; Vaara & Tienari, 2003). Through this increasing number of studies, the cultural dimension has gradually developed into a literature stream of its own that complements studies on strategic and people dimensions of acquisitions.

This study draws primarily on cultural and people dimensions on post-acquisition integration by suggesting that cultural factors are antecedents of an important aspect of the people dimension—post-acquisition conflict. The following section discusses in more detail how cultural factors — cultural differences and acculturation factors — could impact the level of post- acquisition conflict.

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

### ***Cultural differences***

This section discusses how both national and organizational cultural differences could be linked to post-acquisition conflict. First, alternative hypotheses for the impact of national cultural differences are presented. Based on the previous literature, national cultural differences could potentially increase or decrease post-acquisition conflict. Then, organizational cultural differences are suggested to increase post-acquisition conflict.

### ***National cultural differences***

National culture can be defined as the collective programming of the mind acquired by growing up in a particular country (Hofstede, 1991). Thus, national culture is reflected in core values such as feelings of right and wrong, good and evil, beautiful and ugly, rational and irrational (Olie, 1994). In order to understand how national cultures differ, several authors have identified systematic national cultural differences along specific dimensions (Hofstede, 1980, 1991; House, Hanges, Javidan, Dorfman, & Gupta, 2004; Inglehart, Basáñez, Diez-Medrano, Halman, & Luijkz, 2004; Schwartz, 2004; Trompenaars & Hampden-Turner, 1998). These authors suggest that national cultural differences can have far-reaching effects on organizational structure and behavior. For example, national cultural differences contribute to differences in legal systems, administrative practices, and working styles. Further, they can increase differences in the value and belief systems of the organizational members.

In the acquisition context, several empirical studies have shown that national cultural differences can be challenging in international acquisitions. For instance, Datta and Puia (1995) found that acquisitions characterized by high cultural differences were associated with a decrease in shareholder value. In addition,

Brock (2005) showed that national cultural differences complicated post-acquisition integration and resource sharing. This article proposes that the underlying reason for these findings is post-acquisition conflict that hinders acquisition value creation. This argument is in line with previous studies that have reported negative human resource implications of national cultural differences, such as stress and negative attitudes (Weber et al., 1996) and increase in top management turnover (Krug & Hegarty, 1997; Krug & Nigh, 1998). Therefore, the following hypothesis is proposed:

### **Hypothesis 1a. National cultural differences increase post-acquisition conflict.**

While many acquisition studies have associated cultural differences with negative effects, several studies present conflicting results. Some studies suggest that the effect of national cultural differences is insignificant. For instance, Very et al. (1997) found no evident clashing of national cultures in their sample while Larsson and Finkelstein (1999) offered no support for increased employee resistance in international acquisitions. Goulet and Schweiger (2006) suggest that such findings may imply that national cultural differences are perceived as more acceptable, complementary, and tolerable than organizational cultural differences. Accordingly, national cultural differences may be given greater attention and understanding during the post-acquisition integration, which may dilute their conflict potential (Goulet & Schweiger, 2006).

Other studies have pointed to the possible positive aspects of national cultural differences (Björkman, Stahl, & Vaara, 2007; Larsson & Risberg, 1998; Morosini et al., 1998; Slangen, 2006). The main explanation is based on the knowledge-based view. International acquisitions of companies in culturally distant countries could increase the likelihood that the acquiring and the acquired firm have different routines and repertoires and consequently different knowledge stocks (Morosini et al., 1998). If the knowledge stocks of the acquiring and the acquired firms are different, they are likely to be less duplicative and more complementary (Björkman et al., 2007; Larsson & Finkelstein, 1999; Shenkar, 2001) and therefore offer increased potential for synergies and knowledge transfer.

National cultural differences could reduce post-acquisition conflict because resource complementarity reduces organizational overlapping and consequently the likelihood of cost-cutting measures such as lay-offs of personnel in duplicate organizational functions, which often increase post-acquisition conflict. Accordingly, the following hypothesis is presented:

### **Hypothesis 1 b. National cultural differences decrease post-acquisition conflict.**

#### ***Organizational cultural differences***

Schein (1990) defines organizational culture as “(a) a pattern of basic assumptions, (b) invented, discovered, or developed by a given group, (c) as it learns to cope with its problems of external adaptation and internal integration, (d) that has worked well enough to be considered valid and, is therefore (e) to be taught to new members as the (f) correct way to perceive, think, and feel in relation to those problems.” (page 111).

Accordingly, *organizational cultural differences* can be seen as dissimilarities in these basic assumptions.

Most authors within the cultural dimension on M&A argue that organizational cultural similarity creates a sense of cohesion that leads to positive organizational consequences. On the other hand, organizational cultural differences are seen as major causes of post-acquisition conflict. Several underlying theoretical reasons have been suggested. First, according to Cartwright and McCarthy (2005), theories of social attraction suggest that groups form stereotypical and negative attitudes toward other groups which they perceive to be different. Even when there is little measurable difference in the objective content of two cultures, differences can be socially created to legitimize old identities. In addition, problems can occur because members of two organizations with very different organizational cultures have difficulties in understanding each other (Nahavandi & Malekzadeh, 1993; Olie, 1994). Imperfectly shared understandings between the acquiring and acquired firms cause ambiguity and may lead to post-acquisition conflict (David & Singh, 1993). Finally, organizational cultural differences can lead to cultural ambiguity — uncertainty about whose culture dominates — that increases conflict (Datta, 1991). Even if the dominant culture is clear, many organizational members may feel that they do not fit, and this is likely to increase post-acquisition conflict (Cartwright & Cooper, 1996).



Empirical evidence supports the theoretical arguments that link organizational cultural differences to increased post-acquisition conflict. First, David and Singh (1993) directly linked organizational cultural differences to cultural conflict. Second, Elsass and Veiga (1994) and also Weber et al. (1996) found that organizational cultural differences increased stress, tension, anger, lower commitment, and negative attitudes toward cooperation. Third, in laboratory experiments, Weber and Camerer (2003) linked cultural differences to increased conflict and mistaken blame. Similar results were presented in the study of Yu, Engleman, and Van de Ven (2005), which showed the persistence of cultural mental models that may increase post-acquisition conflict. Finally, Bijlsma-Frankema (2001) found that organizational cultural differences decreased trust and cooperation during post-acquisition integration.

In line with these previous studies, the following hypothesis is presented:

### **Hypothesis 2. Organizational cultural differences increase post-acquisition conflict.**

This article will now go on to discuss acculturation factors in more detail and suggest how they could impact post-acquisition conflict. First, acculturation theory is discussed in general. This is followed by a discussion on how each acculturation factor could impact post-acquisition conflict. Each acculturation factor is considered from the perspective of both the acquiring and the acquired firm.

### **Acculturation factors**

Although acquisition studies within the cultural perspective have tended to concentrate on the impact of cultural differences, there are additional cultural factors that should also be considered. By applying the theory of acculturation in the acquisition context, several of these cultural factors can be identified.

The *theory of acculturation* originates from research in anthropology and intercultural psychology. The theory, as proposed by Berry (1980), is derived from the *social movement theory*, which explains how populations of immigrants acculturate in their new host country. Hence, the level of analysis was originally at the national cultural level. However, from the 1980s onwards, acculturation theory has been increasingly applied to organizational level phenomena (see the review of Monin, 2002).

Acculturation can be defined as changes that occur as a result of contact between cultural groups (Berry, 1980). Acculturation situations are characterized by the domination of one group over another — either physical or symbolic — and take place at two levels: individual and group level (Monin, 2002). Based on Monin's (2002) classification, domestic and international acquisitions present a situation of high acculturation intensity. This suggests that acculturation theory is very relevant in the acquisition context, and in fact, acculturation theories based on anthropology have been found especially useful in this regard.

Studies that analyze acquisitions through acculturation theory argue that post-acquisition integration outcomes depend mainly on the nature of the relationship between the acquiring and the acquired firms (Birkinshaw et al., 2000; Buono & Bowditch, 1989; Nahavandi & Malekzadeh, 1988; Sales & Mirvis, 1984; Very et al., 1997). In other words, according to the acculturation view on acquisitions, it is the nature of the relationship and not the extent of cultural differences that defines the acculturation process and subsequently the outcomes of the post-acquisition integration.

Several cultural factors that impact post-acquisition integration can be derived from acculturation theory, including multiculturalism, cultural preservation, and partner attractiveness (Nahavandi & Malekzadeh, 1988; Nahavandi & Malekzadeh, 1993).<sup>4</sup> In this paper, these three factors are referred collectively as acculturation factors. The following section suggests how each of these acculturation factors could impact post-acquisition integration.

### **Multiculturalism**

The first acculturation factor, multiculturalism, is defined as the degree to which an organization contains many different cultural groups. Furthermore, multiculturalism requires that cultural diversity is valued and encouraged

(Nahavandi & Malekzadeh, 1988). In the following, the multiculturalism of the acquirer is reflected and its effects on post-acquisition conflict are considered.

### ***Multiculturalism of the acquirer***

The multiculturalism of the acquirer could potentially reduce post-acquisition conflict. If the acquirer is multicultural, it is more likely to value diversity and less likely to expect that the acquired firm conforms to the culture of the acquiring firm (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Nahavandi & Malekzadeh, 1988; Pablo, 1994). Hence, a multicultural acquirer is less likely to impose a high level of integration in situations where a lower level of would be more adequate (Datta & Grant, 1990). Furthermore, multiculturalism can increase the likelihood of a multidirectional flow of cultural elements. Since unidirectional flows of cultural elements have been linked to post-acquisition conflict (Sales & Mirvis, 1984), multidirectional flows could result in a lower level of post-acquisition conflict.

Based on this reasoning, the following hypothesis is presented:

### **Hypothesis 3a. The multiculturalism of the acquirer decreases post-acquisition conflict.**

However, the literature also supports a counterargument according to which the multiculturalism of the acquirer could possibly increase post-acquisition conflict. If the employees of the acquired firm experience multiple cultures within the acquiring firm as ambiguous, fragmented, or even conflicting, it can be more difficult for them to understand and adapt to the culture of the acquiring firm. The employees of the acquired firm are likely to experience this as stressful because struggling to make sense of the post-acquisition situation increases uncertainty (Cartwright & Cooper, 1990; Datta, 1991). In addition, multiculturalism of the acquiring firm could lead to a lack of clear leadership in the acquiring firm, which could further increase uncertainty and negative personnel reactions.

Hence, the following hypothesis is proposed:

### **Hypothesis 3b. The multiculturalism of the acquirer increases post-acquisition conflict.**

#### ***Multiculturalism of the acquired firm***

Although the original model of acculturation by Nahavandi and Malekzadeh (1988) considers multiculturalism only in the acquiring firm, multiculturalism could also be relevant in the acquired firm. This theoretical argument is based on literature about cultural strength and cohesion. Previous research suggests that if the acquired firm's culture is weaker and less cohesive, the organizational members can be more willing to give up their old organizational identities with less resistance (Cartwright & Cooper, 1993; Haunschild, Moreland, & Murrell, 1994; Sales & Mirvis, 1984). This is likely to result in a lower level of post-acquisition conflict. Because a multicultural acquired firm is likely to have a lower level of cultural strength and cohesion compared with a unicultural acquired firm, multiculturalism of the acquired firm could potentially decrease post-acquisition conflict.

Therefore, the following hypothesis is put forward:

### **Hypothesis 3c. The multiculturalism of the acquired firm decreases post-acquisition conflict.**

#### ***Organizational cultural preservation***

The second acculturation factor, *organizational cultural preservation* refers to the degree to which organizational members wish to preserve their existing culture (Nahavandi & Malekzadeh, 1988). The tendency of organizational cultural preservation is explained by the social identity theory, which suggests that most groups want to experience continuity with their identities (Haunschild et al., 1994). Since culture is central to a group's identity, most groups attempt to preserve their cultures in order to retain their old identities (Sales & Mirvis, 1984; Sidle, 2006). Such cultural preservation tendencies may take place even when there are no tangible threats such as job loss (Sidle, 2006).



### ***Organizational cultural preservation in the acquired firm***

The acquirer is most often the dominant partner in the acquisition and attempts to impose cultural change on the acquired firm. Thus, it has been suggested that organizational cultural preservation, particularly on the part of the *acquired firm*, increases the level of post-acquisition conflict (Nahavandi & Malekzadeh, 1988; Sales & Mirvis, 1984).

Previous qualitative studies have linked organizational cultural preservation in the acquired firm to negative people reactions. For instance, Haunschild et al. (1994) showed that organizational cultural preservation led to situations in which organizational members treated one another unfairly and favoring people who belonged to their own in-group, which can increase post-acquisition conflict. Similarly, Elsass and Veiga (1994) viewed organizational cultural preservation as a restraining force for cultural integration while Sales and Mirvis (1984) identified cultural preservation as one of the main antecedents for post-acquisition conflict. However, the effect of cultural preservation tendencies has not been empirically tested in previous quantitative acquisition studies. Based on the previous theoretical and qualitative studies, the following hypothesis is suggested:

### **Hypothesis 4a. Organizational cultural preservation in the acquired firm increases post-acquisition conflict.**

#### ***Organizational cultural preservation in the acquiring firm***

Expanding the original model of Nahavandi and Malekzadeh (1988), organizational cultural preservation could also be relevant in the acquiring firm. First, creation of a new, shared organizational culture also requires changes in the acquiring firm. If the acquirer insists on preserving its own culture, it deters the building of a new shared organizational culture (Larsson & Lubatkin, 2001; Siehl & Martin, 1981). Second, cultural preservation in the acquiring firm could possibly lead to excessive domination of the acquirer as it attempts to protect its own culture. By being the dominant party and imposing its own culture, the acquiring firm signals that it considers itself superior to the acquired firm (Marks & Mirvis, 2001; Very et al., 1997). The acquired firm is likely to negatively react to such condescending attitudes, which may result in increased post-acquisition conflict.

Hence, it is proposed that

### **Hypothesis 4b. Organizational cultural preservation in the acquiring firm increases post-acquisition conflict.**

#### ***Attractiveness of partner***

The final acculturation factor, *attractiveness of partner*, is defined as the extent of positive perceptions of the acquisition partners towards each other (Buono & Bowditch, 1989; Sales & Mirvis, 1984). The level of post-acquisition conflict may depend on the perceived attractiveness of the partner. First, the organizational members are more likely to abandon their old culture and accept the new one if the new group seems attractive (Haunschild et al., 1994). On the other hand, if the new group seems inferior or its quality is uncertain, the organizational members reject the new culture. According to Haunschild et al. (1994), such cultural rejection can amplify post-acquisition conflict.

Furthermore, the attractiveness of partner can possibly reduce the *fear of contamination*, which is defined by Empson (2001) as the fears on the part of employees that their personal image and their organization's reputation will be diminished through the acquisition. Although it is often hard to justify such fears by any objective criteria, the fear of contamination is a major potential source of organizational conflict (Empson, 2001).

#### ***Attractiveness of the acquirer***

The original model of Nahavandi and Malekzadeh (1988) emphasizes the attractiveness of the acquirer, as perceived by the acquired firm, because it is assumed that the acquiring firm dominates and requires the acquired firm to adjust to the acquiring firm culture. Consequently, previous empirical studies have mainly shown that it is the attractiveness of the acquirer's culture that is important (Birkinshaw et al., 2000; Nahavandi

& Malekzadeh, 1988; Very et al., 1997). Following these studies, the following hypothesis is proposed:

### **Hypothesis 5a. The attractiveness of the acquirer decreases post-acquisition conflict.**

#### ***Attractiveness of the acquired firm***

Although the attractiveness of the acquiring firm has been emphasized in previous studies, the attractiveness of the acquired firm, as viewed by the acquirer, might also reduce post-acquisition conflict. In many cases, changes are not only needed in the acquired firm to achieve successful integration, but also in the acquiring firm. This is particularly important if the goal is to build a new culture that is shared by both firms (Larsson & Lubatkin, 2001; Siehl & Martin, 1981). However, if the acquirer perceives the culture of the acquired firm as unattractive, it may be reluctant to change its own culture and it may impose its own culture on the acquired firm without considering the possible strengths embedded in the culture of the acquired firm. This argument is in line with, for instance, Cartwright and Cooper (1993) who suggest that successful post-acquisition integration depends on the acquirer's perceptions that the culture of the *acquired* firm is attractive. Based on these arguments, the following hypothesis is formulated:

### **Hypothesis 5b. The attractiveness of the acquired firm decreases post-acquisition conflict.**

## **Method**

### ***Data collection***

This study analyzes acquisitions carried out by Finnish companies in Finland and abroad during the period 2001—2004. The postal survey was carried out in 2005, 1—3 years after the acquisitions had taken place. This time lag after the acquisition was sufficient time for a meaningful examination of the integration process (Haspeslagh & Jemison, 1991). At the same time, it was not too long a time pass (Huber & Power, 1985).

The sample companies were selected by using the database of the Finnish magazine *Talouselämä* which provides information on all acquisitions conducted by Finnish companies in Finland and abroad. The database is a very comprehensive and reliable information source on Finnish acquisitions and has been used in previous research on them (e.g. Lehto, 2006). The following five criteria were used in the selection of the acquisition cases. First, the acquirer had to be a Finland-based company, but could not be a Finnish subsidiary. Second, management buy-outs and purely financial acquisitions were excluded because these cases usually do not involve an integration process between two companies. Third, the Finnish acquiring party had to have a stock holding in excess of 50%. Fourth, the acquired company's revenues had to exceed EUR 3.4 million so that the study would be able to concentrate on more significant acquisitions. Fifth, the acquisitions had to involve at least some degree of post-acquisition integration: functional, organizational, or cultural (Haspeslagh & Jemison, 1991; Pablo, 1994).

Several protocols were used to guide the data collection process. First, letters were sent to the CEOs of the acquiring companies to inform them about the research project. Then the CEO or another top executive was contacted by telephone and asked to name key decision-makers from both the acquiring and acquired firms. This procedure helped to identify the right respondents from both the acquiring and acquired companies. The executive was also asked to confirm that the acquisition involved a real integration process. Purely financial acquisitions that would have involved little or no post-acquisition integration were excluded. Finally, the questionnaire was either sent to the identified respondents or the survey was completed with a telephone interview. It should be emphasized that this study focused on ensuring that the key decision-makers involved in acquisition integration responded to the questions rather than on maximizing the number of responses per case.

Strict confidentiality was enforced to minimize the social desirability bias and the pressure to provide "politically correct" answers. The respondents were assured that the answers would be handled confidentially and kept anonymous so that no single cases or respondents would be disclosed. The respondents were also asked to send the questionnaires directly to the researchers to alleviate any pressure for political correctness. Hence, the respondents felt relatively confident in providing answers that reflected their own perceptions of

reality rather than any “official truth”.

To check for face validity, the questionnaire was pretested on a group of academics and managers and necessary changes were made. Several provisions were taken to avoid pseudo-relationships between variables and to minimize common method effects. For example, to overcome priming and consistency effects (Pfeffer & Salancik, 1977), questions were distributed in the questionnaire, and other questions, not relevant to this analysis, were inserted between the questions used in the study. No evidence of common method bias related to the measures was found, since no single factor accounted for the majority of the covariance among the measures (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

### *Sample*

The response rate was 20.1 %, which compared relatively well with that obtained by similar studies (Datta, 1991; Morosini et al., 1998; Schoenberg, 2004). The final data contained 118 responses from 100 acquisitions. Multiple responses were given in 15 out of the 100 acquisitions.<sup>5</sup> The similarity of multiple responses for each of the 15 cases that had multiple responses was tested. Kendall’s coefficient of correlation resulted in significant scores ( $p < 0.01$ ) in each case. This indicated a high degree of uniformity of response within cases which further suggested that single responses could be generalized to represent an acquisition case. Following an established method in acquisitions studies, the scores provided by multiple respondents were averaged to represent an acquisition case (Lubatkin et al., 1998; Lubatkin, Schweiger, & Weber, 1999; Very et al., 1996; Weber, 1996; Weber et al., 1996).

The data consisted of 93 responses from the acquiring firm and 25 from the acquired firm. *t*-tests were conducted to compare the answers stemming from the acquiring firm with those received from the acquired firm. There were no consistent differences between the answers from the acquiring and the acquired firms, which implied that the larger number of responses from the acquiring firm side was not likely to bias the sample.

The data analyzed represents a mixture of 52% domestic and 48% international acquisitions (including 7 acquisitions in Sweden; 5 in Germany; 3 in Estonia, Lithuania, and the USA; 2 in Austria, Canada, China, and the Netherlands; and 1 acquisition in Belgium, France, Great Britain, Norway, Poland, Switzerland and Uruguay).

### *Dependent variable*

#### **Post-acquisition conflict**

Drawing on studies on social identity building (Pratt, 2001; Terry, 2001; Van Knippenberg & Van Leuven, 2001), a measure for different inter-group tensions was developed in order to capture the level of post-acquisition conflict. Four questions measured the extent of different opinions, cooperation problems, conflict, and mistrust between the merger partners. The respondents answered each question on a 7-point Likert scale ranging from 1 = not at all to 7 = very much. The answers to these questions were averaged to obtain the average level of post-acquisition conflict ( $\alpha = 0.89$ ).

### **Independent variables**

#### *National cultural differences*

Several authors have categorized and quantified systematic national cultural differences along specific dimensions (Hofstede, 1980, 1991; Inglehart et al., 2004; Schwartz, 2004; Trompenaars & Hampden-Turner, 1998). This article uses the recent GLOBE-practices measures (House et al., 2004). Because national cultural distance measures utilizing Hofstede’s (1980) scores have been widely criticized (Harzing, 2004; McSweeney, 2002; Shenkar, 2001; Tayeb, 1994), the GLOBE-project attempted to create more reliable measures of national cultural differences. The extensive validity tests conducted for the GLOBE-scores are reported in House et al. (2004). As opposed to Hofstede’s four dimensions (uncertainty avoidance, power distance, individualism, masculinity) and later fifth dimension (long-term orientation), GLOBE-scores have nine cultural dimensions: assertiveness, institutional collectivism, in-group collectivism, future orientation, gender egalitarianism, humane

orientation, performance orientation, power distance, and uncertainty avoidance. Based on nine dimensions of GLOBE-practice scores, an index of national cultural differences was constructed. Following the approach of Kogut and Singh (1988), the index of national cultural differences represented the aggregate national cultural distance of the two acquisition parties:

$$CD_j = \sum_{i=1}^9 \frac{\{(I_{ij}-I_{if})^2/V_i\}}{p}$$

where  $CD_j$  is the cultural difference for the  $j$ th country;  $I_{ij}$  is the GLOBE-score for  $i$ th cultural dimension and  $j$ th country;  $F$  indicates Finland; and  $V_i$  is the variance of GLOBE-score index of the  $i$ th dimension.

Several additional tests were conducted by using alternative measures for national cultural differences, including the measures of Hofstede (1991), Trompenaars and Hampden-Turner (1998), and Inglehart et al. (2004). The use of alternative measures led to results that were essentially similar to those obtained with the GLOBE-scores and thus supported the general validity of GLOBE-scores as measures of national cultural differences.

### **Other independent variables**

To build other independent variables, exploratory factor analysis was used. Six factors with eigenvalues over 1.0 were extracted by using the principle component analysis extraction method and varimax rotation. These factors explained 71% of the variance. The factors and their loadings are reported in Table 1.

### **Organizational cultural differences**

This study measured *perceptions of organizational cultural differences* rather than the more tangible and objective outcomes of organizational culture such as reward structures or mission statements. According to Chatterjee et al. (1992), the advantage of perceptual measures is that perceptions are likely to be better predictors of behavior. The more dissimilar the acquisition partner is perceived to be, the stronger the negative feelings in-group members are likely to hold towards the acquisition partner that is considered to be out-group (Elsass & Veiga, 1994).

The measure was built by adapting the previous measures of organizational cultural differences in acquisition studies (Chatterjee et al., 1992; Lubatkin et al., 1999; Weber, 1996; Weber et al., 1996). Managers were asked to describe the extent of cultural differences across key organizational functions. These included management and control, sales and marketing, production, research and development, and finance. In addition, managers were asked to describe differences in company values in general and differences in the values of key decision-makers. The respondents answered each question on a Likert-scale from 1 = no differences to 7 = significant differences.

This approach involved managers retrospectively evaluating the organizational cultural differences prior to the acquisition between the acquiring and the acquired firms. It can be argued that the differences should be measured at the time the acquisition is completed. However, gaining access to the firms at that time is extremely difficult. Also, managers are usually reasonably able to recall the pre-acquisition situations because acquisitions have the affect of sharpening rather than dulling memory. Furthermore, learning about actual organizational cultural differences as opposed to stereotypical assumptions takes time, which suggests that the assessment should take place after real experiences of the integration efforts. The factor loadings ranged from 0.66 to 0.72, and the construct had a Cronbach's alpha value of 0.82.

### **Multiculturalism of the acquirer**

The multiculturalism of the acquirer was the degree to which the acquiring firm contained many different cultural groups, valued cultural diversity, and was willing to tolerate and encourage cultural differences. Because there is relatively little work conducted on multiculturalism in the acquisition context, this study uses a measure based on the two main studies that have explored multiculturalism of the acquirer: the theoretical discussion of Nahavandi and Malekzadeh (1988) and the empirical paper of Pablo (1994). Accordingly, the



following aspects were measured: (i) the degree to which the culture of the acquirer was composed of several cultures, (ii) the degree to which cultural plurality was tolerated, and (iii) the degree to which cultural plurality was encouraged by the acquirer. The respondents answered each question on a 7- point Likert-scale ranging from 1 = low to 7 = high. The loadings for this factor ranged from 0.43 to 0.99 with a respective Cronbach's alpha value of 0.66.

### *Multiculturalism of the acquired firm*

Although previous studies have focused on multiculturalism in the acquiring firm, the present study proposes that the same measure of multiculturalism can be applied to the acquired firm. Consequently, an exploratory scale was constructed to measure multiculturalism in the acquired firm based on the multiculturalism measure developed for the acquiring firm. Thus, multiculturalism of the acquired firm was measured as the degree to which the culture of the acquired firm was composed of several cultures, as well as the degree to which this plurality was tolerated and encouraged. The factor loadings for this factor ranged from 0.47 to 0.92 with a respective Cronbach's alpha value of 0.72.

**Table 1** Results of exploratory factor analysis.

Factor	Variable	1	2	3	4	5	6
1 Organizational cultural differences	Cultural differences in production	<b>0.72</b>	0.06	0.09	0.11	0.06	-0.13
	Cultural differences in R&D	<b>0.72</b>	0.15	0.01	0.17	0.00	0.04
	Cultural differences in values	<b>0.71</b>	-0.07	-0.09	-0.07	-0.01	-0.31
	Cultural differences in management and control	<b>0.70</b>	-0.12	-0.08	0.02	-0.05	-0.19
	Cultural differences in sales and marketing	<b>0.65</b>	0.08	-0.08	0.17	-0.05	0.00
2 Multiculturalism (acquirer)	Tolerates cultural diversity (acquirer)	-0.07	<b>0.99</b>	0.05	0.07	-0.06	-0.04
	Values cultural diversity (acquirer)	0.09	<b>0.57</b>	0.09	0.04	-0.11	0.18
	Many different cultural groups (acquirer)	0.08	<b>0.43</b>	-0.25	0.09	-0.24	-0.17
3 Multiculturalism (acquired)	Tolerates cultural diversity (acquired)	-0.09	0.08	<b>0.92</b>	-0.04	0.05	0.00
	Many different cultural groups (acquired)	0.04	-0.08	<b>0.64</b>	0.05	0.03	-0.06
	Values cultural diversity (acquired)	-0.06	0.06	<b>0.47</b>	-0.17	-0.09	0.01
4 Organizational cultural preservation (acquirer)	Preservation of culture (acquirer)	-0.35	0.08	0.09	<b>0.98</b>	0.08	-0.02
	Preservation of organizational practices (acquirer)	-0.04	-0.06	-0.11	<b>0.62</b>	0.11	-0.12
5 Organizational cultural preservation (acquired)	Preservation of culture (acquired)	-0.18	-0.02	0.02	0.08	<b>0.87</b>	-0.04
	Preservation of organizational practices (acquired)	-0.07	0.09	-0.09	0.13	<b>0.78</b>	-0.11
6 Partner attractiveness	Attractiveness of acquired firm values	0.00	-0.17	0.04	-0.15	0.04	<b>0.79</b>
	Attractiveness of the acquiring firm values	-0.06	-0.15	-0.12	0.09	-0.32	<b>0.79</b>
	Attractiveness of the acquired firm practices	0.17	0.00	-0.09	-0.13	0.21	<b>0.63</b>
	Attractiveness of the acquiring firm practices	0.18	0.16	-0.08	-0.02	-0.44	<b>0.56</b>

Extraction method. Maximum likelihood. Rotation method: Varimax with Kaiser normalization. Rotation converged in 7 iterations.

### *Organizational cultural preservation by the acquirer*

This construct measured the tendencies of organizational cultural preservation in the acquiring firm. Previous quantitative acquisitions studies have not measured organizational cultural preservation tendencies. Hence, this study uses exploratory scales derived from previous theoretical and qualitative literature (Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988) and from in-depth background interviews with managers. The exploratory scales were pre-tested with a group of practicing managers, acquisition scholars, and Master's students. The survey items performed well in the pre-tests indicating good construct validity and reliability. Organizational cultural preservation by the acquirer was measured as the extent to which the acquirer wanted to preserve (i) its own culture and (ii) its own organizational practices that existed prior to the acquisition. The respondents answered both questions on a scale of 1 = not at all to 7 = very much. The factor loadings of 0.98 and 0.62 and the Cronbach's alpha value of 0.81 suggested good construct validity for the measure.

### *Organizational cultural preservation by the acquired firm*

This construct measured the tendencies of organizational cultural preservation in the acquired firm. The development of the construct was similar to that of organizational cultural preservation by the acquirer discussed above. Organizational cultural preservation by the acquired firm was measured as the extent to which the acquired firm wanted to preserve (i) its own culture and (ii) its own organizational practices that existed prior to the acquisition. The respondents answered both questions on a scale of 1 = not at all to 7 = very much. The factor loadings ranged from 0.87 to 0.78 and the Cronbach's alpha value was 0.83.



### *Partner attractiveness*

Both the attractiveness of the acquiring firm and the attractiveness of the acquired firm was measured by drawing on previous theoretical and qualitative work on partner attractiveness (Buono & Bowditch, 1989; Nahavandi and Malekzadeh, 1988) and on the quantitative study of Birkinshaw et al. (2000). The attractiveness of the acquirer was measured by asking the respondents how the personnel of the acquired firm viewed (i) the practices and (ii) the values of the acquiring firm. The respondents answered each question on a 7-point Likert-scale ranging from 1 = very negative to 7 = very positive. Similarly, attractiveness of the acquired firm was measured by asking the respondents how the personnel of the acquiring firm viewed (i) the practices and (ii) the values of the acquired firm. The respondents answered each question on a 7-point Likert-scale ranging from 1 = very negative to 7 = very positive.

Initially, it was expected that the questions would result in two factors, one describing the attractiveness of the acquirer and the other depicting the attractiveness of the acquired firm. However, the explanatory factor analysis showed that all four variables loaded on one factor with the factor loadings ranging from 0.56 to 0.79. In addition, the Cronbach's alpha value was higher when all four variables were included in the construct (0.79) than when divided into attractiveness of the acquired firm and attractiveness of the acquiring firm ( $\alpha = 0.75$  and  $\alpha = 0.78$  respectively). This suggests a close link between the attractiveness of the acquiring and the acquired firm.

It can be argued that such close link is due to a large number of single respondents, mainly from the acquiring firm, who commented on the perceptions of attraction in both the acquiring and the acquired firm. However, it is reasonable to assume that the acquiring firm managers had an overview of the general perceptions of attractiveness in both the acquiring and in the acquired firm. This is even more likely because the sample focused on the respondents who were highly involved in the post-acquisition integration and, therefore, are likely to be knowledgeable about both sides in the acquisition. The *t*-tests further supported this view by suggesting that there were no consistent differences between the answers from the acquiring and the acquired firms that would suggest under- or overestimation of attractiveness of the acquirer by the acquiring firm managers. In addition, the factor analysis showed that the respondents were able to clearly distinguish between the acquiring and the acquired firm regarding both multiculturalism and cultural preservation. Thus, it is likely that the respondents would also have been able to distinguish between the acquiring and the acquired firm concerning partner attractiveness, in case there were major differences.

Based on the strong correlation between the perceptions of partner attractiveness in the acquiring and the acquired firm, the previous Hypotheses 5a and 5b were combined into Hypothesis 5, which is related to the mutual attractiveness of the two firms:

### **Hypothesis 5. Partner attractiveness reduces post-acquisition conflict.**

#### **Control variables**

In addition to the independent variables, the following control variables based on previous literature were included.

#### *Size*

Following previous studies (e.g. Haleblan & Finkelstein, 1999; Kusewitt, 1985; Larsson & Finkelstein, 1999), the size of the acquisition was controlled for. A larger size for the acquired company could possibly imply more potential for conflict. Acquisition size was measured as the revenues of the acquired company at the time of acquisition. Because the variable was positively skewed, a logarithmic transformation was conducted to obtain a more normal distribution (Tabachnick & Fidell, 2001). As a result, the skewness value of the variable decreased from 7.067 to 1.651 (where the value of 1.000 indicates a perfectly unskewed distribution).

#### **Actual relatedness**

It has been suggested that actual relatedness affects post-acquisition outcomes (Morosini et al., 1994, 1998;

Very et al., 1997; Weber, 1996). Particularly Weber (1996) links the loss of autonomy that is often experienced in closely related acquisitions to post- acquisition conflict. The actual relatedness was captured as the degree to which the acquired firm was combined with the acquirer (Lubatkin et al., 1998; Very et al., 1996, 1997). The managers were asked to evaluate the degree of integration across the firm's management and control, sales and marketing, production, R&D, and finance resources. A 7-point Likert-scale (1 = no integration, 7 = total integration) was used for each question. A mean of these five questions represented the total amount of actual relatedness between the firms ( $\alpha = 0.89$ ).

**Table 2** Means, standard deviations, and correlations.

Variable	Mean	s.d.	1	9	3	4	5	6	7	8	9	10
1 Size	1.132	0.592	1.000									
2 Actual relatedness	5.214	1.379	-0.168	1.000								
3 Acquisition experience	0.611	0.493	0.260*	-0.116	1.000							
4 National cultural differences	0.428	0.661	0.247*	-0.099	0.243*	1.000						
5 Organizational cultural differences	0.000	0.915	-0.062	0.065	-0.076	-0.022	1.000					
6 Multiculturalism of acquirer	0.000	0.998	0.058	-0.162	-0.063	-0.030	-0.016	1.000				
7 Multiculturalism of acquired	0.000	0.935	-0.037	-0.004	-0.061	0.146	-0.015	0.007	1.000			
8 Cultural preservation by acquirer	0.000	0.996	-0.084	0.006	-0.154	-0.014	0.030	0.004	-0.012	1.000		
9 Cultural preservation by acquired	0.000	0.924	0.151	-0.276**	0.101	-0.029	-0.025	-0.014	0.013	0.017	1.000	
10 Partner attractiveness	0.000	0.922	-0.125	0.138	0.077	0.080	-0.059	-0.012	-0.004	0.009	-0.040	1.000
11 Post-acquisition conflict	3.026	1.236	0.237*	-0.124	0.032	-0.092	0.307***	0.027	-0.133	0.199*	0.236*	-0.518***

All two-tailed tests.

\*  $p < 0.05$ .

\*\*  $p < 0.01$ .

\*\*\*  $p < 0.001$ .

### Acquisition experience

This study included the acquirer's previous acquisition experience as a control variable because prior research has indicated that it may impact post-acquisition outcomes (Lubatkin, 1983; Vermeulen & Barkema, 2001; Very & Schweiger, 2001). Since the sample included several acquirers with limited or no previous acquisition experience, the variable was positively skewed. A logarithmic transformation was conducted to achieve a more normal distribution. The skewness value of the variable decreased from 5.500 to 1.432.

### Results

To separate the effects of control variables, cultural differences and acculturation factors, three models using hierarchical regression analysis were built. The statistical program used was SPSS 14.0. Model 1 was the baseline model, in which only the control variables were included. In Model 2, the two independent variables related to national and organizational cultural differences were added. Model 3 included also the independent variables related to acculturation factors—multiculturalism, cultural preservation, and partner attractiveness (Table 2).

The results of the regression models are illustrated in Table 3. Model 1 was not statistically significant ( $F = 2.122$ ). Model 2 showed improvement over Model 1 ( $\Delta R^2 = 0.122$ ,  $p < 0.01$ ) and was significant at the  $p < 0.01$  level ( $F = 4.234$ ). Model 3 was significantly better than Model 2 ( $\Delta R^2 = 0.300$ ,  $p < 0.001$ ) and highly significant ( $F = 8.348$ ,  $p < 0.001$ ). Model 3 explained 48.4% of the variation in post- acquisition conflict ( $R^2 = 0.484$ ).

The Hypothesis 1a suggested that *national cultural differences* would increase acquisition conflict whereas the competing Hypothesis 1b proposed that national cultural differences would decrease acquisition conflict. Both hypotheses were rejected because the variable was not significant. The negative sign suggested that national cultural differences marginally *decreased* conflict, but since the effect was not significant, there was not enough evidence to support Hypothesis 1b. The second hypothesis proposed that organizational cultural differences would increase post-acquisition conflict. The results showed that organizational cultural differences were highly significant ( $\beta = 0.328$ ,  $p < 0.001$ ) in Model 2 and remained highly significant also in Model 3 ( $\beta = 0.290$ ,  $p < 0.001$ ). Thus, Hypothesis 2 was supported.

Hypothesis 3a suggested that the *multiculturalism of the acquirer* would decrease post-acquisition conflict. Hypothesis 3b was a counterhypothesis suggesting that the multi-culturalism of the acquirer would increase

post-acquisition conflict. Both hypotheses were rejected. The positive sign indicated that the direction hypothesized in Hypothesis 3a was correct, but because of the non-significant result, neither one of the hypotheses could be supported. Hypothesis 3c was similar to Hypothesis 3a, but considered the *multiculturalism of the acquired firm*. No support was found for this hypothesis.

**Table 3** Results of regression analysis.

Variables	Model 1. Control variables				Model 2. Cultural differences				Model 3. Acculturation factors			
	Beta	t	Sig.	VIF	Beta	t	Sig.	VIF	Beta	t	Sig.	VIF
<i>Control variables</i>												
Size	0.226*	2.195	0.031	1.084	0.259*	2.631	0.010	1.113	0.172*	2.098	0.039	1.162
Actual relatedness	-0.088	-0.877	0.382	1.035	-0.110	-1.162	0.248	1.039	0.011	0.131	0.896	1.169
Acquisition experience	-0.035	-0.342	0.733	1.068	0.009	0.090	0.929	1.108	0.067	0.820	0.414	1.163
<i>Cultural differences</i>												
National cultural differences					-0.131	-1.347	0.181	1.084	-0.058	-0.720	0.473	1.136
Organizational cultural differences					0.328***	3.501	0.001	1.010	0.290***	3.777	0.000	1.016
<i>Acculturation factors</i>												
Multiculturalism of acquirer									0.023	0.293	0.771	1.043
Multiculturalism of acquired									-0.112	-1.451	0.150	1.035
Cultural preservation by acquirer									0.214**	2.765	0.007	1.059
Cultural preservation by acquired									0.191*	2.383	0.019	1.114
Partner attractiveness									-0.476***	-6.079	0.000	1.031
<i>Model statistics</i>												
R	0.249				0.429				0.696			
R <sup>2</sup>	0.062				0.184				0.484			
Adjusted R <sup>2</sup>	0.033				0.141				0.426			
Incremental R <sup>2</sup>	0.033				0.122**				0.300***			
F	2.122				4.234**				8.348***			
N	100				100				100			

All two-tailed tests. Data in the table represent standardised beta coefficients. Dependent variable: Post-acquisition conflict.

- \* p < 0.05.
- \*\* p < 0.01.
- \*\*\* p < 0.001.

Hypotheses 4a and 4b proposed that organizational cultural preservation would increase post-acquisition conflict. These hypotheses were supported. The results indicated that *organizational cultural preservation both in the acquiring firm* ( $\beta = 0.214$ ,  $p < 0.01$ ) and *in the acquired firm* ( $\beta = 0.191$ ,  $p < 0.05$ ) significantly increased the level of post-acquisition conflict. Finally, strong support was found for Hypothesis 5, which predicted that *attractiveness of the partner* would reduce post-acquisition conflict ( $\beta = -0.476$ ,  $p < 0.001$ ).

Concerning the control variables, larger acquisitions were characterized by a higher level of conflict than smaller acquisitions ( $\beta = 0.172$ ,  $p < 0.05$ ). It is possible that a larger size of the acquired firm amplified the factors causing post-acquisition conflict. Another possible explanation could be that larger acquired firms had stronger, more embedded organizational cultures that were more prone to conflict as a reaction to being acquired. Actual relatedness and acquisition experience of the acquirer were not related to post-acquisition conflict.

## Discussion

The aim of this paper was to combine *cultural* and *people dimensions* on acquisitions by focusing on the role of cultural factors as antecedents of post-acquisition conflict. Following the suggestions in previous research that have pointed to the importance of including multiple levels of culture in post-acquisition analysis (Weber et al., 1996), two levels of cultural differences — national and organizational — were included and their impact on post-acquisition conflict was examined. In addition, the impact of acculturation factors on post-acquisition conflict was explored to address the requests for studies that examine other cultural factors in addition to cultural differences due to the lack of quantitative research in this area (Stahl & Voight, 2005; Teerikangas & Very, 2006).

In brief, the study shows that organizational cultural differences and organizational cultural preservation increase post-acquisition conflict whereas partner attractiveness reduces post-acquisition conflict. National cultural differences and multiculturalism were not found to impact post-acquisition conflict. In the following, the results are discussed in more detail.

First, national cultural differences were not related to post- acquisition conflict. This was surprising because, in earlier studies, national cultural differences have been linked to negative people outcomes, such as stress and negative attitudes (Weber et al., 1996) and increased top management turnover (Krug & Hegarty, 1997; Krug & Nigh, 1998). However, the insignificant finding of this study is similar to those of Very et al. (1997) and Larsson and Finkelstein (1999) who found no support for increased cultural clash or employee resistance due to national cultural differences. As Goulet and Schweiger (2006) suggest, a possible explanation could be that national cultural differences are considered external factors and a part of the overall country risk of foreign direct investment that is factored into the acquisition decision. Thus, the results could be interpreted to suggest that the firms successfully adjusted to national cultural differences by, for example, adjusting their operation methods to fit the local context, thereby neutralizing the conflict potential of national cultural differences.

Second, the findings suggested that organizational cultural differences increased post- acquisition conflict. This is in line with previous studies that have emphasized the role of organizational cultural differences in explaining the problems experienced along the people dimension in acquisitions (Bijlsma- Frankema, 2001; David & Singh, 1993; Elsass & Veiga, 1994; Weber et al., 1996; Weber & Camerer, 2003; Yu et al., 2005). As discussed in the hypothesis section, theories of social attraction and social identity offer possible explanations for this relationship by suggesting that organizational cultural differences lead to in-group and out-group categorizations that increase post- acquisition conflict.

Taken together, the findings concerning national and organizational cultural differences are intriguing because they suggest that organizational cultural differences are more likely to increase post-acquisition conflict than national cultural differences. Goulet and Schweiger (2006) offer a possible explanation for this finding. As opposed to national cultural differences, organizational cultural differences are often considered more “surface” level differences that can and should be controlled and changed by the management. Hence, acquisition partners are likely to be less accepting and more attentive to organizational cultural differences and less inclined to working toward building a new shared culture than in the case of national cultural differences (Goulet & Schweiger, 2006). Such tendencies could lead to inflexibility of the acquiring firm management with regard to accepting and adapting to organizational cultural differences, and therefore to increased post-acquisition conflict.

In addition to cultural differences, this article explored the impact of acculturation factors on post-acquisition conflict. Although an increasing number of studies have explored the impact of culture in acquisitions, most have focused on explaining the effect of cultural differences without considering other cultural factors. Particularly quantitative empirical evidence on additional cultural factors, such as acculturation factors, remains scarce. This study offers further insights into the impact of acculturation factors to complement the previous, mostly theoretical and quantitative studies in this area.

Most importantly, partner attractiveness can decrease post- acquisition conflict. This result is in line with other studies that have emphasized the positive impacts of attractiveness of the acquirer (Olie, 1994; Very et al., 1996, 1997). This study extends these previous findings by showing the importance of partner attractiveness that is seen as “mutual” attractiveness, which takes into account how both the acquiring and acquired firm perceived the other. This provides a more comprehensive picture of partner attractiveness in acquisitions than concentrating only on acquiring or acquired company perceptions of attractiveness. To demonstrate the importance of partner attractiveness, when the results concerning organizational cultural differences and partner attractiveness are compared, partner attractiveness more than offsets the negative impact of organizational cultural differences.

Another acculturation factor that received support in this study was organizational cultural preservation. Whereas theoretical studies have focused particularly on the cultural preservation tendencies in the acquired company, cultural preservation tendencies in the *acquiring company* increased post- acquisition conflict even more. Previous studies offer several explanations for this. If the acquirer insists on preserving its own culture, it may negatively affect the building of a new shared organizational culture (Larsson & Lubatkin, 2001; Siehl &

Martin, 1981) and increase the likelihood of condescending attitudes towards the partner (Marks & Mirvis, 2001; Very et al., 1997), which may increase post-acquisition conflict.

Finally, multiculturalism had no effect on post-acquisition conflict. This was surprising considering that especially the multiculturalism of the acquirer has been linked to diversity (Nahavandi & Malekzadeh, 1988), appropriate level of integration (Datta & Grant, 1990), and multidirectional flow of cultural elements (Sales & Mirvis, 1984), all of which could potentially decrease the level of post-acquisition conflict. However, as will be discussed in the next section, this finding could have been influenced by the nature of the sample.

### **Limitations**

The limitations of the study should be considered when interpreting the results. First, the insignificant finding concerning the effect of national cultural differences should be interpreted with caution taking into account that the study included a small sample of international acquisitions in different foreign countries. It is possible that the relationship between national cultural differences and post-acquisition conflict could only be discovered by utilizing a larger sample of international acquisitions that would include equal sized large sub-samples of culturally close and culturally distant acquisitions. In this data set, most sample companies were from European countries that are culturally fairly similar to Finland. Although the sample corresponds to the general tendency of Finnish companies to invest primarily in culturally close countries, it may not bring out the full effect of national cultural differences.

The insignificant finding related to multiculturalism is also worth noting. A possible explanation could be that the study focused on acquisitions, not on mergers. Multiculturalism could be less important in acquisitions than in mergers because acquisitions are often characterized by the domination of the acquirer, which may reduce the importance of multiculturalism. In mergers, sustaining and valuing multiple cultures could be more important due to the increased need of sustaining cultural plurality. Alternatively, it could be that the measure of multiculturalism did not fully capture the concept or the high ranking managers were not in a position to fully evaluate the extent of multiculturalism in the lower organizational levels.

Furthermore, the results should be read keeping in mind that they are based mostly on one response per acquisition case. Although the CEOs and other senior executives can be assumed to have a fairly accurate view of the post-acquisition integration process and the statistical tests on multiple response cases supported this view, the perspectives of upper level management may differ from those of the lower level employees. For example, the upper level management could perceive the partner as attractive based on good strategic compatibility. Moreover, the majority of the respondents were from the acquiring firm. Although the statistical tests revealed no significant differences between the acquiring and the acquired firm answers, this methodology could have resulted in a perspective that better reflects the views of the acquiring than those of the acquired firms.

In addition, the degree of explanation of the regression model should be considered. The model explained 48% of variation in post-acquisition conflict. Although this can be regarded as a very good level of explanation compared with other acquisition studies using regression analysis as their analysis method, it raises questions on how the remaining part could be explained. Possible additional explanatory variables include aspects of the general macro-economic environment and acquisition motives. For instance, in a difficult macro-economic environment, firms are pressured to cut costs, which may increase the level of post-acquisition conflict regardless of the cultural factors. Similarly, acquisition motive could impact the level of post-acquisition conflict. For example, according to the managerialism hypothesis, managers engage in acquisitions to maximize their own utility at the expense of the firm's shareholders (Seth et al., 2002). In such cases, the post-acquisition conflict could possibly be high if the personnel of both firms do not agree with the reasons behind the acquisition.

Finally, the sample included companies with a relative high degree of integration (the mean value of 5.2 on a scale of 1—7). This suggests that the findings are likely to be more applicable to acquisitions in which a higher



degree of integration is achieved and desired. The cultural factors explored in this study may be less important in acquisitions that aim for no integration (financial acquisitions) or for a very low level of integration.

### **Suggestions for future research**

This study suggests several avenues for future research. It would be interesting to test the impact of national cultural differences on post-acquisition conflict in larger samples to see whether the relationship remains insignificant or whether it becomes significant as the sample size increases. In addition, partner attractiveness could be explored further in order to understand what constitutes an “attractive” partner. “Strategic” attractiveness in terms of strategic complementarities may or may not coincide with “cultural” attractiveness. Furthermore, it would also be interesting to further explore whether the perceptions of post-acquisition conflict and its antecedents differ based on the respondent’s organization (acquirer vs. acquired) and his/her role in the organization (for instance, management vs. employees and engineers vs. marketing). Finally, additional factors potentially influencing post-acquisition conflict should be explored in future studies.

### **Managerial implications**

In addition to increasing the theoretical understanding of the cultural aspects of the post-acquisition process, this article is of managerial relevance. It sends a clear message that organizational cultural differences, cultural preservation tendencies, and mutual partner attractiveness are important in determining the level of post-acquisition conflict. Therefore, these cultural factors should be considered already in the pre-acquisition stage and factored into the pre-acquisition decision-making. If these factors appear unfavorable, it does not mean that the acquisition is destined to fail. It does imply, however, that the post-acquisition integration process is likely to be more challenging. The management of the acquiring firm should be prepared for increased post-acquisition conflict and consider different ways of reducing the high conflict potential. Previous studies suggest that cultural integration mechanisms such as communication (Schweiger & DeNisi, 1991), investments in cooperation (Schweiger & Goulet, 2005), use of expatriates (Hébert, Very, Et Beamish, 2005), socio-cultural training (Vaara, Tienari, & Björkman, 2003), and identity-building campaigns (Vaara, Tienari, & Irrmann, 2007) can be effective. However, cultural integration can be costly because of the financial and human resources (for instance, managerial time) required. Cultural integration can also be risky because all managerial actions, even well-intended ones, can have uncertain and unexpected consequences. Therefore, in acquisitions characterized by a high level of organizational cultural differences, cultural preservation and/or a low level of partner attractiveness, the estimated cost of cultural integration and the risks involved should be carefully considered and included in the pre-acquisition cost analysis in addition to the more traditional financial and strategic factors.

### **Notes:**

- 1 It is worth noting that mergers are a small phenomenon compared with acquisitions: According to a UNCTAD (2000) estimate, only 3% of all mergers and acquisitions are actually mergers (quoted in Buckley & Ghauri, 2002; Teerikangas & Very, 2006). In addition, some deals publicized as “mergers” are, in reality, acquisitions in disguise. Particularly in mergers publicized as “mergers of equals”, one of the parties is often in control and the term “merger” is used for political reasons to avoid the seeming dominance of one firm (Piekkari, Vaara, Tienari, & Sääntti, 2005). Examples of such “mergers” include DaimlerChrysler and Arcelor Mittal. True “mergers of equals” are rare because of the difficulties in maintaining a genuine balance in the power disposition (Vaara & Tienari, 2003; Zaheer, Schomaker, and Genc, 2003).
- 2 The corporate headquarters’ location is used as a proxy for the nationality of the firm. In most cases, it reflects the firm’s history and national identity. For example, Nokia and Kone have their corporate headquarters in Finland, L’Oreal and Danone in France, Wal-Mart and P&G in the US, and Henkel and Siemens in Germany. Different criteria could also be used based on the geographical focus of the operations, ownership, place of stock-market listings, or place of registration. For the purpose of this study, the definition based on the location of the corporate headquarters was chosen because it has been used in previous acquisition studies (Shimizu et al., 2004; Nummela, 2005) and effectively discriminates between domestic and international cases in the empirical sample.
- 3 Although most frequently reported people dimension outcomes tend to be negative, Sinetar (1981) also

identifies possible positive outcomes, such as greater job satisfaction, better prospect for promotion, compensation, and increased status. However, in the literature these aspects have been overshadowed by negative psychological and behavioral responses.

4 According to Nahavandi and Malekzadeh (1988), an additional factor that determines the acculturation is the degree of relatedness between the firms. Since relatedness is related to strategic fit instead of cultural fit, it is not included among the acculturation factors. However, it is included in the empirical model as a control variable.

5 In 11 acquisitions 1 response was received from the acquiring firm side and 1 response was received from the acquired firm side; in 2 acquisitions 2 responses were received from the acquiring firm side and 1 response from the acquired firm side; in 1 acquisition 1 response was received from the acquiring firm side and 2 responses from the acquired firm side; in 1 acquisition 2 responses were from the acquiring firm side.

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