The Impact of Corporate Culture on International M&As

Operationalizing corporate culture

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Executive summary

A large number of international mergers and acquisitions have failed for no apparent reason. Most of these mergers seemed sensible in terms of strategy and finance. However, after completing the mergers it was found that profit was negated or even destroyed due to a lack of focus on the cultural fit between the companies involved. This paper proposes a framework for analyzing the cultural dimensions of a merger process. We have elected to focus on two dimensions as determinants for corporate culture: organizational structure and values. Furthermore national culture is seen as an underlying influence on these determinants. Together these dimensions describe how a company will react in a given situation providing a measure of predictability to the merger process. By being able to predict the reaction of a company we can identify factors that are important to manage in order to fully realize the potential of a merger or acquisition.

Inherent in a merger or acquisition is a strategic consideration of how such a deal will benefit the companies involved. In our paper we have examined the strategic motivations and aspirations which the companies have for the merger, and concluded that these factors in combination with the corporate culture create an individual scenario unique to each merger.

In order to apply our findings practically we have conducted case studies on the acquisition of Zanussi by Electrolux and the merger between Daimler-Benz and the Chrysler Corporation. Through the use of primary and secondary sources we have investigated culture and how the companies involved have dealt with obstacles in relation to cultural dissimilarities. Based on these findings we have provided some general guidelines to what is important when merging across borders.

Our primary case is the acquisition of Metalock Denmark A/S by the MAN Group and was conducted in order to validate the applicability of our framework in a contemporary setting. Our analysis enabled us to determine how the acquisition process has proceeded so far and to predict how further integration of the two companies should be managed in order to minimize resistance to change.
Part 1: Preliminary considerations

1.1 Introduction

During the 1990s a veritable wave of mergers and acquisitions (abbreviated M&As) washed over the world. Large proportions of these M&As proved to be unsuccessful (Deal & Kennedy 1999: 112). It can be assumed that some M&As failed due to unforeseen circumstances or simply plain bad luck. In 2006 the global M&A volume was US$ 4 trillion, the highest ever. Although the mergers after 2000 have had a significantly higher success rate than in the 90s, many of them do not meet expected goals (Able 2007). It is therefore evident that there exists some fundamental flaws in the pre-merger analysis of attractive merger targets as well as in the post-merger integration stage.

It is generally agreed that there are three main criteria for success in M&As; the financial, the strategic and the cultural. The financial fit, complicated as it may be, is a tangible dimension that can be analyzed using numbers and figures. Strategic fit is based on management and in a broad sense stakeholder interests and visions, making it a more arbitrary criterion but still measurable. The cultural fit was mostly overlooked during the first peak of the M&A period (Able 2007). In retrospect it seems clear that this dimension could very well be responsible for many of the M&A failures and still contributes to the lack of successful integration seen today.

The aim of this paper is to investigate the influence of culture on the M&A process by analyzing the corporate culture of firms participating in international mergers. Corporate culture is influenced by its surroundings, its stakeholders, the employees and the national culture. Furthermore, corporate culture is linked to the structural setup of an organization (Horwitz, Anderssen, Bezuidenhout, Cohen, Kirsten, Mosoeunyane, Smith, Thole & van Heerden 2002). These dimensions influence each other and contribute to give companies unique attributes that may aid or hinder them in an M&A context.

The paper will focus on the dimensions that create corporate culture in companies. By using existing theory and case studies we will identify some of the factors that managers should keep in mind when analyzing potential cross-border merger targets and implementing such mergers.
1.2 Motivation

The increased focus on globalization and the thereby increased global competition has made it important for companies to be flexible. M&As are a way to expand and innovate and we find this to be a highly interesting contemporary subject. Furthermore we believe that culture constitutes one of the ‘softer’ sides of business that, in our opinion, may be as important as finance and that increased focus on the subject will be beneficial for managers in the future.

1.3 Presenting the problem

This research paper will specifically focus on the following research question:

- How can corporate culture be operationalized in order to create a general framework for analyzing the cultural aspects of international mergers and acquisitions?

This overall research question will be examined by using the following objectives:

- To determine which factors contribute to create a specific merger or acquisition scenario
- To illustrate which dimensions and influences determine the corporate culture of a company
- To clarify how the changes in corporate culture can be managed to achieve a higher degree of cultural integration

1.4 Delimitations

Since we deal with M&As we assume that corporate cultures in companies are single entities. In this paper we do not consider individual subcultures to significantly influence the merger process and rather see the corporate culture as the sum of these subcultures. Although employees will react differently to an M&A, this delimitation allows us to consider implications on a company level rather than an individual level.
We have chosen to study the M&A process in an international context. In a time of increased globalization the ability to successfully manage a foreign company is paramount to international growth. Therefore our paper assumes that national culture influence corporate culture significantly. In case of a domestic M&A this factor would be irrelevant due to similarities and the study might have been based on other factors. It should also be noted that the national culture will be seen as representative and given for individual countries. This delimitation is made in order to make our analysis more precise even though this type of classification will present a somewhat stereotypical image of national culture.

We have elected to focus on structure and values as determinants of corporate culture. National culture is seen as a factor that significantly influences corporate culture and will be examined in detail. Other factors such as external and internal stakeholders exert influence, but we believe that these influences can be seen through our main dimensions.

Due to resource constraints much of our paper will be based on secondary sources and historical case studies. Since we are dealing with international mergers, obtaining primary data is difficult. In many cases it would require travelling to foreign countries or willingness from companies to provide us with classified material. Inherent in the historic case studies is that executives with knowledge of the merger process will be unavailable to us as they have retired or moved on to other companies. However we are analyzing a primary case from a Danish perspective in order to provide primary data for the paper.
Part 2: Research overview

2.1 Methodology

This section illustrates the methodological approach which is adopted in regards to this research paper, both in terms of the theory and the data applied. It further creates an overview of the structure of this paper.

Figure 2.1: Argumentation pattern

1. Initial gathering of secondary literature and theory to enable a qualified identification of the problem field which is to be researched and analysed.

2. Devising research questions which will be analysed and explained accordingly.

3. Collection of relevant secondary literature and theory to create a basis for our theoretical framework

4. Analyzing theories in order to create a theoretical framework for the paper

5. Identifying and analyzing relevant case studies in order to identify issues that are relevant in our primary case

6. Collecting data for the primary case

7. Conducting the core analysis of primary data in rigorous agreement with the theoretical and analytical framework, to devise a valid explanation and account of the problem field.

8. Concluding on the coherence and incoherence of the body of data and the theoretical framework.
2.1.1 Employed research strategy
The combined research strategy for this paper will follow a pattern as illustrated in figure 2.1. This procedure of following rigid stages of action throughout the process of analyzing the problem field of the paper is similar in its construction to the explanation building approach defined by Yin (1994) in Saunders, Lewis & Thornhill (2003).

2.1.2 Methodological approach
With regards to the process of theoretic construction, we find an intermediate approach between induction and deduction, i.e. ‘abduction’, which is based on a continuous interaction between theory and empirical evidence, to be more appropriate. With the abductive approach, we believe that this systematic combination helps us extend our understanding of our observable facts continuously, since we go from theory to empirical observations, and vice versa. Based on existing theories the aim of the paper is to draw forth key characteristics of M&A processes. Furthermore, empirical evidence leads us to modify the theories during the course of this paper (Saunders et al. 2003: 89). The purpose of our analysis is to identify potential complications for companies involved in international mergers or acquisitions. Our objective is not to conclude anything beforehand by the use of a hypothesis but rather to explore, discover and explain the various aspects influencing the research topic, as we believe that our topic is of such a nature that it will evolve during the research process. We believe that our theoretical analysis will enable us to choose specific case studies that are relevant to our research. Therefore the case studies conducted in this paper are considered to be an appropriate method when the research question is explored by examining a contemporary event, especially in the field of management, as case studies provide a strong relevance to problems in practice (Yin 1998). The case studies also constitute a way of exploring existing theories and challenge these (Saunders et al. 2003: 93).

At this point it is important to make explicit, that the positivistic philosophy embedded in the deductive approach is only present in the process of creating the framework for analyzing our case studies, but not in the analytical context of the case studies themselves. The contextual philosophy of the paper owes more to interpretivism, due to the fact, that we research unique
management situations, which is not necessarily subject to generalization (Saunders et al. 2003: 84).

2.1.3 Data Collection

As our research is based on case studies, we can potentially apply a wide variety of data collection methods. Working from this foundation is very beneficial, as it enables us to define our own field of research and data collection method (Saunders et al. 2003: 200). We initially searched for relevant primary and secondary sources of documentary data, to accumulate sufficient knowledge of relevant theory and our case companies. This approach allowed us to build our framework in which to conduct the analysis of international M&As, and to facilitate a nuanced conclusion to the research question.

Before conducting the core analysis of this paper we had to gather our literature and database, and more importantly create our framework for analysis. This task was carried out through an inductive research method (Saunders et al. 2003: 380). The sources used were existing theories on corporate culture, national culture, organizational structure and change management. We furthermore utilized secondary as well as primary literature regarding the primary case and the two historical cases.

To collect additional primary data, two semi-structured qualitative interviews were conducted. This form of interview allowed us to take advantage of the explanatory as well as exploratory qualities of this specific interview type (Saunders et al. 2003, Easterby-Smith et al. 2002). These interviews were conducted with Kim Bonde, former chairman of the board of Metalock Denmark A/S and with Kenneth Christensen, former CEO and current Sales and Marketing Director of Metalock Denmark A/S. In both cases, the objective was to understand the meanings these authority figures ascribed to the various factors of our problem field. An interview with the new CEO of Metalock, Niels H. Nøjgaard, was scheduled to be conducted, but due to unfortunate circumstances the interview was canceled. Instead a transcription of the interview with Kenneth Christensen was emailed to Mr. Nøjgaard and subsequently a short telephone interview was conducted.

Both semi-structured interviews were conducted in a similar manner at the interviewees’ place of work. The interviews began with open ended questions, allowing the interviews to evolve
into an informal dialogue where the interviewees could elaborate on key issues. A dictaphone was employed during each interview and full notes were taken in order to ensure maximum transfer of information and to increase the validity of our interviews (Saunders et al. 2003: 260-264). During the process of conducting this type of interviews we were aware of the potential threats to the overall reliability and validity of the interviews (Easterby-Smith et al. 2002: 53). In order to address this potential problem a number of security mechanisms where included, of which some are mentioned above. In addition, we consulted methodological theory to identify potential risks, especially interviewer and interviewee bias, which is notoriously difficult to control completely (Saunders et al. 2003: 254).

Archival and secondary data were brought together from company records as well as academic journals and literature. This body of information was crucial in a sense, that it in combination with the primary data provided us with the ability to compare the two data sources in a contextual manner (Saunders et al. 2003: 392). This paper has emphasized on using secondary data, because of time and budget constraints. Also in the historic cases we found little relevance in collecting primary data as it, in many instances, would be obsolete and not contribute to our understanding of the problem fields (Ghauri and Grønhaugh 2002: 176).

The reason we decided to support our theoretical findings with the use of case studies, was to clarify why a set of decisions were made, how they were implemented and what the result of these decisions ended up being (Yin 2003). According to Yin (2003), the preferred strategy among researchers when posing ‘why’ and ‘how’ questions, is the case study strategy.

We have elected to conduct multiple case studies in a holistic setting. The holistic approach was chosen as we consider the entire organization to be influenced by M&As. In total we have analyzed three cases, two historic and one contemporary. The historic case analyses are conducted in order to validate our analytical framework, in order for it to be applicable to our primary case. The two historic cases were chosen based on relevance to our research questions and access to secondary data. The first case, Electrolux/Zanussi, was an outright acquisition, which proved quite successful in the long run and therefore could yield information on how to achieve success in international M&As. The second case, DaimlerChrysler, exhibited signs of a failed merger and we found it relevant to analyze the causes of this failure. We elected to conduct the two case studies based solely on secondary data, since the cases were historic and
the gathering of primary literature was therefore seen as superfluous and we believe that using multiple sources of secondary data is sufficient to ensure validity (Saunders et al. 2003: 101).

Finally our primary case, MAN Diesel/Metalock Denmark A/S, was an international acquisition taking place whilst this paper was in progress. For this reason the data we have collected is raw and unprocessed in the minds of the participants giving us an undigested view of the acquisition process. Due to timing many of the acquisition details were unavailable to us until late in the process. Also we did not receive any major input from MAN Diesel, as the company was unwilling to share their internal documents with us. However we had good access to Metalock Denmark A/S and since any major impacts are anticipated to take place in the acquired company we find that our data collection is valid and reliable although we must consider the interviewee bias (Saunders et al. 2003: 254).

2.1.4 Data analysis

Since we are using both a deductive and an inductive approach, it will impact the analysis, as literature and theory shapes the data collection (Saunders et al. 2003: 87). The analysis of the data collected from the interviews, other primary data as well as the archival secondary data is an ongoing process carried out throughout the paper. The analysis is non-standardized in the sense that it is an ongoing argumentation and discussion of the correlation between data and theory (Saunders et al. 2003: 99). The analytical process, which is labeled explanation building, is inductive in character according to Yin (1994: 110-112). This notion coincides with the attempt, inherent in this paper, to construct an explanation to our research question through our case phenomenon while collecting data and analyzing them on the basis of existing theory (Saunders et al. 2003: 96-97).

2.1.5 Criticism of methodology

The classic problem when conducting research in a given problem field, is the inherent lack of time and resources to analyze the persistent emergence of new and relevant data (Saunders et al. 2003: 388-397). This is even more evident when the field is of academic interest and contemporary importance to the academic school involved. If this is the case for academic researchers who conduct their investigations on a daily basis, then it is even truer for
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university students. Especially the constraint of time and resources has continuous consequences throughout the paper and on the conclusions eventually reached. The necessity to refrain from a multi method approach was the primary consequence of these constraints, even though this method is a beneficial approach when conducting case studies (Saunders et al. 2003: 99). We have elected to do a cross-sectional study of the M&A situation due to this lack of resources or opportunities to analyze the development of M&As through longitudinal studies and must therefore rely on historical data to complete our study (Saunders et al. 2003: 96). The cross-sectional approach causes us to analyze culture on a fairly superficial level. In order for us to observe the underlying determinants directly we would have had to conduct participating observations of our case companies.

This again prevented the use of triangulation, since the source of primary data is limited to Metalock Denmark and MAN Group’s own official statements and reports as well as three interviews. As a result, the validity of the paper is, to a large extent, highly dependent on the information available to us (Saunders et al. 2003: 101). Additional quantitative data would have allowed for the use of triangulation, which would have provided a thorough safety mechanism for the reliability of the paper (Saunders et al. 2003: 99-103). A quantitative data source would have required additional interviews, which could be analyzed statistically and further ensured the overall reliability in relation to subject and observer bias (Saunders et al. 2003: 101). This would have eliminated the potential problem of having conducted no more than three interviews. Ultimately, we could have increased the validity and exactness of our research by conducting it in both Denmark and Germany, thereby avoiding potentially biased secondary and archival data. Nevertheless, we have delimited the aim of this paper to solely focus on said data and that an alternative information gathering method such as participating observations is beyond the scope of this paper.
Part 3: The paradigm of M&As

Before companies engage in a merger there are several factors that need to be considered. In this part we will discuss the goals of companies in order to ascertain the underlying motivations for M&As. Thereby we will correlate the merger motives with the challenges posed by integrating different types of culture.

3.1 Underlying motives for merging

When confronted with the concept of mergers most people think of a deal to combine two companies of similar size producing similar goods or services. These companies may or may not be related but have decided that they will be better off after the merger. Motivations for such a merger may be synergies, diversification or increased bargaining power (Deal & Kennedy 1999: 114). Although a merger of perfect equals may be a theoretical concept, it is important that both parties have more or less equal say in the merger process. Often one will encounter mergers publicized to be voluntary and with both parties exercising control over the entire process. This picture of a ‘happy family’ is often shattered during the merging process and the wishes of one side will be swept away, as we will see in the case of DaimlerChrysler.

Since the early 1990s the number and size of mergers has steadily increased (Deal & Kennedy 1999: 113). These M&As seemed like a prudent course of action from a pre-merger point of view. In retrospect many companies regretted being caught up in the merger frenzy of that period as most of these deals ended up creating negative value.

Several motives have been suggested for engaging in merger activities based on a variety of theories. These range from personal motivation by management to benefits of economics of scale (Trautwein 1990). In a broader sense the only motivation needed for engaging in M&As is if they pass the better-off test (Finkelstein 1999). This rather crude test requires the company to do a simple cost benefit analysis and be able to answer whether they are better off after a merger. This test is essentially correct but it does not take the perspective of human fallibility into account and therefore motives for M&As should not be seen purely in terms of
potential financial gains. Although there are many different motivations not all of them are valid. According to the research, the financial synergies of a merger are often negated by the integration costs and as such the efficiency motive is not valid (Trautwein 1990). Other researchers have extended the scope of the research to include more contemporary motivations. According to Boateng, Qian & Tianle (2008) technology transfers, diversification, market penetration and synergies are motives for companies to engage in cross border M&As. Even though the research is based on Chinese M&A activities we believe that these motives are generally applicable to most cross border M&As. Some more specific motivations can be found by examining the 25 largest M&As in history (Deal & Kennedy 1999: 114). These are diversification, scale, distribution and financial motives. Some rarer occurrences such as LBOs are mentioned but they do not make up a significant part of M&A activity and will therefore not be relevant for the continued discussion.

Another way of analyzing motives is to look at the goals of the merger through two dimensions: the degree of integration and whether the intent is to co-operate or dominate in the post-merger stage (Olie 1994, Sliburyte 2005). This results in four types of M&As as can be seen in table 3.1.

**Table 3.1: Types of mergers and acquisitions**

<table>
<thead>
<tr>
<th>Co-operation</th>
<th>Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio</td>
<td>Low</td>
</tr>
<tr>
<td>Redesign</td>
<td>High</td>
</tr>
<tr>
<td>Merger</td>
<td>Absorption</td>
</tr>
</tbody>
</table>

Source: Sliburyte 2005

- **Portfolio**: Low integration combined with a strategy of co-operation results in a merger where the acquirer leaves the acquired company intact for the most part. This is often the case with unrelated mergers as there is little gain in integrating the two companies thoroughly.
- **Merger**: The marriage of equals. Here the two companies merge to create a new entity. Culture and structure needs to be reconfigured and may result in a high degree of uncertainty for both the company in general as well as the individual employees.

- **Redesign**: The acquired firm is reconfigured in order to achieve a higher degree of efficiency. The two companies will not integrate in any significant way but the acquirer may impose its management style and some modes of operation on the acquired company.

- **Absorption**: A typical acquisition. The two companies have disproportionate size and power during the merger. Over time the acquired company will be integrated completely into the acquirer. Due to the high degree of integration it is important to manage change vigorously.

Sliburyte (2005) concludes that the challenges involving cultural integration will be more important in related M&As than unrelated. Furthermore Sliburyte (2005) finds a significant relation between cultural integration challenges and differences in national culture. Weber et al. (1996) conducted a study of whether national culture did matter. Surprisingly the study concluded that cultural distance is positively correlated with employee attitude towards an international merger. In other words higher cultural distance equals positive attitude to change. At first glance this seems contrary to logic. People are generally resistant to change and the more foreign practices that are introduced the greater the resistance ought to be. Weber et al. (1996) explains that unlike in a domestic M&A the employees involved in an international M&A expect change. With this in mind the employees can prepare themselves and will come to accept the merger more readily.

### 3.2 Determinants of M&As

Every M&A has its own unique set of attributes depending both on the motivations as described above, as well as a number of other factors depending on size, structure, management style and goals of the merger. We have identified what we believe to be the most important strategic determinants for M&A success. These factors all contribute in creating or removing obstacles to the integration process. If two companies are to achieve a successful
merger the factors described must either be aligned in advance or measures have to be taken to integrate the two companies through the use of change management.

The first important factor for entering into a merger is what kind of deal one wishes to conduct. In a merger the companies are more or less partners. The two companies exchange ideas and experiences to optimize the new company they are creating. It is unlikely that both companies have exactly the same influence on the merger process, but it is important that both companies retain some decision making power. In an acquisition, a company is taken over by another with or without the blessings of the acquired company. The friendly takeovers are often met with low resistance from shareholders and management, although the employees may disagree. A hostile takeover will usually be met with resistance from most fronts and will pose a greater challenge to integrating the two companies (Sliburyte 2005).

The strategic choice of cooperation or dominance is strongly related to the previous factor. The merger favors the cooperation as it is desirable to minimize conflict between players with high degrees of power (Sliburyte 2005). However the cooperation strategy is not always used in the case of a merger as the power distribution is inherently skewed. Likewise the domination strategy comes into play when acquiring companies. The acquirer has a significant amount of power over the acquired company but depending on the motive and goals of the merger it may be counterproductive to engage in severe ‘arm twisting’.

M&As may be undertaken with similar companies producing goods and services related to the current production or they may take a company into new and unfamiliar territory. In a related merger the companies have some common ground as they produce the same type of products. However the approach to production methods, structure, management style etc. may differ widely thus creating barriers to integration (Deal & Kennedy 1999: 111).

M&As can be undertaken either horizontally to expand or diversify or vertically to integrate links of the value chain (Porter 1985: 50-51). Companies can derive benefits from both but there are significant challenges, and perceptions of optimal solutions may differ widely.

The existence of a strong organizational culture is the cornerstone of integration. A tight knit community will generally be more hostile to external pressures and less likely to embrace change. The cultural aspect of companies is what we will examine as a major topic of this
paper, as we believe that this aspect is often overlooked in the pre-merger stages of an M&A process. Other factors may contribute to the success or failure of M&As, but these can for the most part be related to the culture of the companies involved (Deal & Kennedy 1999: 114). Values and norms are one of the determinants of corporate culture and have significant impact on M&As, but these factors have little relevance without the need for integration of cultures (Schein 1985). If the two companies are satisfied by conducting a merger and leave the two companies as separate entities in all but name, then the cultural barriers will be minimal. Therefore we assume there will be some integration taking place and that the degree of this integration and how it is managed will have an impact on the success of an M&A.

A major difference in companies is the structural setup. Some companies prefer a hierarchical structure with a long chain of command and a formal environment. Others have embraced organic structures with easy access to top management and high degrees of personal freedom. Merging two such distinctly different companies may prove challenging (Mintzberg 1980). The difference in national culture is another major obstacle for M&As. National culture influences the values of employees in a company and thereby the general corporate culture (Hofstede 1980). Cultures differ across the world and customs and beliefs can lead to misunderstandings and resistance to change. When analyzing an M&A situation, we will examine national culture as an underlying influence that affects the corporate culture.

These factors are all important in creating the frame in which an international M&A can take place. When analyzing the cases we will be able to identify some the challenges companies face when merging, and examine some of these factors closer.
Part 4: Identifying key elements of corporate culture in relation to M&As

4.1 Literature review

4.1.1 The purpose of the literature review

The following sections will present the literature that forms the basis for this research paper. In order to place our research in the context of a wider body of research, different perspectives on M&As and corporate culture will be outlined. In order to fully comprehend these impacts, it is imperative to look at previous work done by a great number of researchers and scholars. This will enable us to recognize the relevant elements and thereby identify the theoretical approaches which are most widely recognized by the business society.

We have previously assumed a connection between corporate culture and the successful integration of M&As. This connection will be examined further in the following sections in order to both verify the link as well as explore the level of importance.

4.1.2 The influencing literature

Since the link between corporate culture and successful integration in M&As serves as a base for our analysis it is vital to determine whether this link actually exists. Existing literature on this particular topic will be examined in this section of the paper as it enables us to investigate whether our assumptions are reasonable. This review will furthermore allow us to determine which elements are particularly relevant in relation to our specific problem description.

First, the prevailing literature on national culture will be presented followed by the literature on organizational structure. Hereafter the literature on corporate culture and its relation to M&As will be discussed as this literature forms the basis of our research. Finally we will examine the literature on change management practices.
When examining national culture one of the most important contributors is Geert Hofstede. Hofstede conducted a survey on national culture based on questionnaires distributed to employees of IBM and analyzed the data to create national stereotypes (Hofstede 1980, 1988). The stereotypes were based on five dimensions: *power distance, individualism, masculinity, uncertainty avoidance* and *long-term orientation*. These dimensions are widely accepted as valid and used to create larger regional cultural clusters, such as Scandinavia, Latin America and Southeast Asia. However the study seems far from complete. The survey was conducted based on a single company in 66 countries (Hofstede 1980) but only 40 were used. The fact that only IBM is used means that the results may deviate from the real world, making the findings less reliable, as IBM’s overall corporate culture might have influenced the findings. Many of the results are questioned by McSweeney (2002) as he finds that the study cannot be seen as a model for understanding national culture. One of the central points of criticism is that Hofstede sees a nation and therefore national culture as defined by national borders. He does not take into account that groups of people may be dispersed across these borders. However much of Hofstede’s research can still be seen as valid. Even though the study may be incomplete it is evident that there exist some cultural differences from nation to nation that can be explained by using Hofstede’s definitions. If all cultural differences could be explained through adaptation to the organizational environment then all employees in a company with a strong corporate culture, such as IBM, would behave similarly regardless of their nationality (Weber, Shenkar & Raveh 1996).

It is our belief that although Hofstede’s survey is flawed, it provides a base for further exploring national culture. Correlated with similar studies this survey should provide us with a model for analyzing the influence of national culture on organizational culture.

Another school of national culture has been suggested by Richard Gesteland (2005). The differences in national culture are mainly based on whether the culture is *deal-focused* or *relationship-focused*. Gesteland also deals with the dimensions of *formality, adherence to schedules* and *the expressiveness of specific cultures*. Further he goes on to describe a number of individual countries and the most important cultural traits and faux pas. In contrast to Hofstede, Gesteland provides the reader with a framework for dealing with foreign cultures in a more specific context.
Mintzberg is a pioneer in the field of organizational structure. Previous research mainly focused on the distinction between line and staff functions. Mintzberg (1980) suggested five organizational stereotypes with a unique structural setup. The structure of these organizations is based on six factors: the operating core, the strategic apex, the middle line, support staff, technostructure and ideology. Different weights are allocated to each factor which in turn shapes the organization. This setup gives rise to five types of structure: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form and adhocracy. Mintzberg (1980) suggests that the organization is more effective if it resembles one of these configurations.

Another classification of structure was proposed by Miles, Snow, Meyer & Coleman (1978). Based on how companies responded to entrepreneurial, engineering and administrative problems these companies were classified as defenders, prospectors, analyzers or reactors.

These two theories have long been basis for much of the research that has been conducted. Most researchers tend to see these classifications as categories rather than ideal types (Doty, Glick & Huber 1993). Therefore organizations should be seen as being in transit between two of the structural archetypes. Doty et al. (1993) also formalized and tested the existence of the structural types proposed by Mintzberg (1980) and Miles et al. (1978) concluding that there was no significant relationship between effectiveness and the categories suggested by Mintzberg. However the classification of Miles et al. seemed to be valid as they are evident in the cases used in the research (Doty et al. 1993). Furthermore Doty et al. (1993) suggests that the five configurations of Mintzberg should either be viewed as theoretical stereotypes that cannot be achieved in reality or that more configurations exist.

Other researchers have suggested that structure is closely linked to strategy (Jennings & Seaman 1994). A company choosing the optimum combination of strategy and structure (as defined by Miles et al. 1978), either organic or mechanic, will become more efficient. The organic or mechanic structure of an organization relates directly to the organizational culture.
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(Jones, Mills, Weatherbee & Helms Mills 2004: 238). In our paper we will investigate the determinants of this structure and relate these to the corporate culture found in organizations.

Edgar Schein can be viewed as one of the pioneers on organizational culture. Schein constructed a conceptual framework for analyzing and intervening in the culture of organizations (Hatch 1993). He defines culture through three levels: artifacts, Espoused values, and basic underlying assumptions (Schein 1985).

Roger Harrison (1972) presented a conceptual framework, which was intended for a better understanding of organizational culture. This framework suggests four organization ideologies, namely power orientation, role orientation, task orientation, and person orientation. Cartwright & Cooper (1993) builds upon this framework suggesting a relationship between the four ideologies. The model examined the relationship between culture type and organizational performance in recent joint ventures. The work of Harrison and Cartwright & Cooper is focused on structure as a determinant for corporate culture. We find that this perspective is too narrow to be applied to our paper and use Schein (1985) to provide a deeper understanding of culture.

One of the most relevant pieces of research for our paper is a study of the national/corporate cultural fit in international M&As (Weber et al. 1996). This article deals with Hofstede’s and Schein’s views on culture and highlights some of the major differences. While Hofstede sees culture as a collective programming of the human mind, Schein and Weber et al. see culture as beliefs, values and norms shared by management (Schein 1985, Weber et al. 1996). Using Schein’s three levels of culture (Schein 1985 in Weber et al. 1996) Weber concludes that the two top levels, cultural artifacts and values and beliefs are not directly influenced by national culture but rather originate from the organizational environment. However the third level, the underlying assumptions, is significantly influenced by national culture. Therefore national culture and organizational culture are distinct but closely related entities. In conclusion we will accept Hofstede’s stereotypes as valid although they may not be comprehensive. The national culture will be seen as influencing the underlying assumptions of corporate culture and as such relevant to consider when defining corporate culture in an international M&A.
Berry (1980) defines acculturation as “changes induced in two cultural systems as a result of the diffusion of cultural elements in both directions”. Acculturation contains three features: It requires contact between two autonomous cultural groups; it takes place in three stages of contact, conflict and adaptation; and it occurs both at the individual and group level (Berry 1983). Nahavandi & Malekzadeh (1986) modifies Berry’s (1984) modes of acculturation by adapting it directly to the issue of mergers. Berry’s original model suggests that when two groups come into contact, total absorption of one into the other is not the only mode of adaptation, nor necessarily the most appropriate (Nahavandi & Malekzadeh 1986). Nahavandi & Malekzadeh (1986) states that the course of acculturation is dependent on the nature of the two companies, as well as the wishes of the employees. They emphasize two particular factors of influence, namely how attractive the merger is from the point of view of the acquired firm, as well as to what extent the acquired firm values its own culture and wishes to retain its current practices.

Based on Berry’s acculturation model, Nahavandi & Malekzadeh (1986) developed the Acculturative Model of Mergers, which discusses the influence of the acculturation modes on the long-term performance of the merger. The model proposes that when the two merging companies agree on the preferred mode of acculturation, the acculturation process will be more straightforward as less acculturation stress and organization resistance will occur (Nahavandi & Malekzadeh 1988).

The basic change management model was formulated by Kurt Lewin (1951). His three stages of unfreezing, moving and refreezing remain virtually unchanged today. Several theories have used his research as a basis for further studies (Zand & Sorensen 1975, Schein 2004). Schein (2004) elaborates on the basic Lewin model and integrates the culture into change management. Schein argues that the basics of Lewin’s model are valid but that the stages of the model are often symptoms of crisis. Schein emphasizes that culture cannot be an objective of change. This view is reinforced by Bate, Khan & Pye (2000) saying that culture only changes after people’s actions have been altered.
Another school of change management deals with change through either economic value or organizational capability (Beer & Nohria 2000). The change is situated around six dimensions: goals, leadership, focus, process, reward system and use of consultants. In general change is seen as more complex and dynamic. Furthermore change is seen as continuous evolving task that requires constant attention.

4.2 Theoretical framework

The purpose of the framework is to create a tool that may aid in analyzing different corporate cultures and integrating these cultures in an M&A situation. The implications of this integrated culture are then examined, through the use of change management theory, to determine appropriate responses to change. In order to create a usable tool for managing an international merger or acquisition we have created figure 4.1. This model gives an overview of the main themes of our paper and how we will combine the various schools of theory. The main theories utilized in the framework are Mintzberg (1980) and Miles et al. (1978) for the part concerning organizational structure, Gesteland (2005) and Hofstede (1980, 2001) on national culture, Schein (1985, 2004) in regards to corporate culture and finally change management through the theories of Lewin (1951) and Beer & Nohria (2000). During the analysis of international M&As we will explain and elaborate on these theories wherever it may be relevant.
Our main focus in the thesis is on corporate culture. However, we acknowledge that national culture will influence corporate culture to some extent. Theorists disagree when it comes to whether or not national culture influence corporate culture, or if it does, to what extent. Harbison & Myers (1959) saw no relationship between national culture and corporate culture and argued that it is rather a “logic of industrialization” that affects all organizations the same way (Harbison & Myers 1959: 117). However Martin (1992) finds it misleading to deny the influence of the elements of an organization’s environment, here including national culture, on the content of corporate cultures (Martin 1992: 113). Francesco & Gold (2005) acknowledge the convergence of cultures due to communication across cultures; products sold worldwide and homogeneous marketing, on the surface level. However societal behavior clearly shows cultural differences through the many ethnic conflicts sparked by attempts to maintain cultural
identities (Francesco & Gold 2005: 41-42). Globalization is also an important factor to consider as companies in many cases compete on a global rather than on national or local scale. Organizations learn from each other and adapt accordingly in order to heighten the competitive level (Francesco & Gold 2005: 256-257). Our aim is not to establish a stereotypical view of nations as the sole creators of culture, but we see it as a necessary input to include in order to examine all aspects of corporate culture. We have settled on two prevailing researchers within national culture, Geert Hofstede and Richard R. Gesteland, who we believe will enable us to investigate the imperative issues within national culture when exploring corporate culture.

Hofstede has constructed a model of cultural dimensions, which includes five dimensions. The dimensions are power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance and long-term vs. short-term orientation (Hofstede 1991).

Power distance represents the inequalities of society. It concerns to what extent the less powerful members of society accept unequally distributed power (Hofstede 1991: 27-28).

Individualism vs. collectivism is the degree to which people are acting on behalf of their respective groups. It basically refers to the extent to which an individual looks after his own interest or if he searches for the optimal solution for the collective group (Hofstede 1995: 50-52).

Masculine and feminine cultures differ in that masculine cultures are characterized by ambition, assertiveness, decisiveness and the desire to gain recognition by performing well and increasing earnings, whereas feminine cultures believe in compromise and value the interpersonal relationships, the environment and a sense of service. Overall it can be said that the quantity of life is valued in masculine cultures, whereas the quality of life is valued in feminine cultures (Sliburyte 2005).

The dimension of uncertainty avoidance concerns the need for formal rules and regulations, as the index indicates whether a culture’s members feel comfortable or uncomfortable in unstructured and changing situations (Hofstede 1995: 111-114).

The fifth dimension, which Hofstede later added to his work, long- vs. short-term orientation, was developed to distinguish between East and West. This dimension counters long-term to short-term aspects of Confucian thinking through long-term values such as persistence and thrift, and short-term values such as personal stability and respect for tradition (Hofstede 2001: 27).
351). However this dimension can also be used to identify differences between cultures in the same hemisphere.

Hofstede’s dimensions are not only important on country or regional levels. They are equally important on the organizational level. The attitudes of members of an organization will be influenced by the nationality of the members. Hofstede’s survey concerned the organization IBM. The worldwide corporate culture of the company is affected by the “IBM spirit” based on values and codes of conduct, but at a regional level the corporate culture will also be affected by the values brought by the various members of the organization. This works both ways as an organization established and run in America will obviously be highly influenced by American values. A subsidiary of the same company based in Germany will almost certainly have brought American values from the parent company through regulations, codes of conduct, etc., but will also be highly affected by the host country’s values through the employees.

Gesteland (2002) divided the cultures into deal-focused and relationship-focused cultures. As the terms indicate the deal-focused cultures are characterized by direct communication, confrontational behavior, and a strict focus on the agreement at hand. In contrast, the relationship-focused cultures are characterized by relationship building, indirect communication, and often non-confrontational behavior. Gesteland divides the world into three categories: deal-focused cultures, moderately deal-focused cultures and relationship-focused cultures. Table 4.2 lists Gesteland’s divisions.
Table 4.2: Gesteland’s definitions of deal-focused and relationship-focused cultures

<table>
<thead>
<tr>
<th>DEAL-FOCUS vs RELATIONSHIP-FOCUS</th>
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<tbody>
<tr>
<td><strong>Deal-Focused Cultures:</strong></td>
</tr>
<tr>
<td>- Nordic Europe</td>
</tr>
<tr>
<td>- Germanic Europe</td>
</tr>
<tr>
<td>- Great Britain</td>
</tr>
<tr>
<td>- North America</td>
</tr>
<tr>
<td>- Australia &amp; New Zealand</td>
</tr>
<tr>
<td><strong>Moderately Deal-Focused Cultures:</strong></td>
</tr>
<tr>
<td>- South Africa</td>
</tr>
<tr>
<td>- Latin Europe</td>
</tr>
<tr>
<td>- Central and Eastern Europe</td>
</tr>
<tr>
<td>- Chile</td>
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<tr>
<td>- Singapore</td>
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<tr>
<td>- Hong Kong</td>
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<tr>
<td>- Southern Brazil</td>
</tr>
<tr>
<td>- Northern Mexico</td>
</tr>
<tr>
<td><strong>Relationship-Focused Culture:</strong></td>
</tr>
<tr>
<td>- Latin America</td>
</tr>
<tr>
<td>- Most of Asia</td>
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<tr>
<td>- Most of Africa</td>
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<tr>
<td>- Arab World</td>
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</table>

Source: Gesteland 2002: 20

Gesteland goes on to distinguish between informal and formal cultures. The informal cultures are characterized by simple rules, small status differences and familiarity when addressing others, whereas the formal cultures are characterized by more hierarchical structures with stricter rules and regulations.

Table 4.3: Gesteland’s definitions of informal and formal cultures

<table>
<thead>
<tr>
<th>INFORMAL vs FORMAL CULTURES</th>
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<tbody>
<tr>
<td><strong>Informal (Egalitarian) Cultures:</strong></td>
</tr>
<tr>
<td>- Nordic countries</td>
</tr>
<tr>
<td>- North America</td>
</tr>
<tr>
<td>- Australia</td>
</tr>
<tr>
<td>- New Zealand</td>
</tr>
<tr>
<td><strong>Formal (Hierarchical) Cultures:</strong></td>
</tr>
<tr>
<td>- Great Britain</td>
</tr>
<tr>
<td>- Most of Continental Europe</td>
</tr>
<tr>
<td>- Middle East</td>
</tr>
<tr>
<td>- Latin America</td>
</tr>
<tr>
<td>- China</td>
</tr>
<tr>
<td>- Most of Asia</td>
</tr>
</tbody>
</table>

Source: Gesteland 2002: 47
Gesteland furthermore divides the cultures into monochronic cultures, moderately monochronic cultures and polychronic cultures. Monochronic cultures like to do one thing at a time. They value a certain orderliness and feel there is an appropriate time and place for everything. They do not appreciate interruptions. Polychronic cultures like to do multiple things at the same time. Being on time tends to be a matter of interpretation.

**Table 4.4: Gesteland’s definitions of monochronic and polychronic cultures**

<table>
<thead>
<tr>
<th>MONOCHRONIC vs POLYCHRONIC TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monochronic Cultures:</strong></td>
</tr>
<tr>
<td>- Germany</td>
</tr>
<tr>
<td>- Switzerland</td>
</tr>
<tr>
<td>- North America</td>
</tr>
<tr>
<td>- Northern Europe</td>
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<tr>
<td>- Japan</td>
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</tbody>
</table>

Source: Gesteland 2002: 57

According to Gesteland there are both expressive and reserved cultures. Members of expressive cultures communicate in radically different ways from their more reserved counterparts. The reserved cultures tend to be more soft spoken and less interruptive. The expressive cultures, as the name entails, are very expressive through the use of physical gestures and are rather uncomfortable with silence.
Table 4.5: Gesteland’s definitions of expressive and reserved cultures

<table>
<thead>
<tr>
<th>EXPRESSIVE vs RESERVED CULTURES</th>
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</thead>
<tbody>
<tr>
<td><strong>Expressive Cultures:</strong></td>
</tr>
<tr>
<td>- Southern Europe</td>
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<tr>
<td>- Middle East</td>
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<tr>
<td>- Latin America</td>
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Source: Gesteland 2002: 68

When examining two companies prior to a merger one of the major determinants of culture is the structural setup of both companies. The choice of structure can be either voluntary or forced. External and internal factors influence the company and determine some, but there is always room to maneuver. In the following we will examine different configurations of structure using some of the tools provided by structural theorists (Mintzberg 1980, Miles *et al.* 1978). It is important to stress that our purpose is to outline the various structures, and not necessarily to determine their strengths and weaknesses, as we wish to portray the challenges and opportunities when two different structures face change in the form of an M&A.

On a basic level organizational structure can be viewed as either organic or mechanic. The organic organization is characterized by having a short chain of command, low degree of formalization and low complexity. In short the typical organic company is relatively small, young and flexible. The company’s core competencies are innovation and non-standardized tasks. Software and consultancy companies are typical examples of where to find an organic structure. Mechanic companies are at the other end of the spectrum. Here the chain of command is long and managers at different levels have little or no opportunity to exceed their authority and come up with creative solutions. Mechanic organizations are also characterized by bureaucracy and change occurs slowly here. However these companies are geared towards
producing standard goods and can turn out high volumes at low cost. Most assembly line products are made by mechanic companies (Jones et al. 2006).

Mintzberg (1981) explains that consistency and coherence are the keys to organizational design. He believes that all companies fall into at least one of five configurations and staying consistent to the chosen configuration(s) is the answer to success (Mintzberg 1981). According to Mintzberg the five configurations are: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy. The following will give a brief description of the five configurations.

The simple structure is based on little or no formal and standardized behavior. At the same time very little time and resources are spent on planning and training. Direct supervision is used to a great extent, which eliminates the need for a large middle management. In order to maintain a flexible and lean structure the support staff is also kept to a minimum. The simple structure is seen as been ideal for rapid innovation due to its short decision-making process (Mintzberg 1981).

The machine bureaucracy is very much opposed to the simple structure as it is based on formal behavior and elaborate planning. This type of structure is usually highly vertically centralized as the formal power is concentrated at the top. Also the structure has limited horizontal decentralization. The machine bureaucracy is often seen in companies focusing on mass production (Mintzberg 1981).

The professional bureaucracy concerns specialization of skills rather than of processes. This type of structure is highly decentralized as both operating and strategic decisions are made at all levels. Due to the independence of the professionals, the need for front-line managers is small. However, the structure is often divided in two parallel hierarchies, one democratic with bottom-up power for the professionals, and one autocratic with top-down power for the support staff. This structure is often seen in companies where the goal is not to innovate, but rather perfect already existing processes or products (Mintzberg 1981).

The divisionalized form is based on a set of independent divisions, which are joined together by an administrative overlay. The individual divisions have a large degree of autonomy. However this does not necessarily mean that control is decentralized, as headquarters tend to impose standardization through division managers. These managers are being held responsible
for the performance of their individual divisions. This centralization coupled with bureaucracy leads to a level of machine bureaucracy within the divisions (Mintzberg 1981).

The final structure defined by Mintzberg is the **adhocracy**. This is a very fluid structure based on project teams. Power is distributed unevenly throughout this structure. The adhocracy structure can be divided into the operating adhocracy which carries out innovative projects on the behalf of its clients, and the administrative adhocracy which undertake projects on its own behalf (Mintzberg 1981).

Another classification of structure was proposed by Miles *et al.* (1978). Based on how companies responded to entrepreneurial, engineering and administrative problems these companies were classified as **defenders, prospectors, analyzers, or reactors**.

Miles *et al.* (1978) believe that each organizational type faces an administrative problem. For the **defender** this problem is: “How to achieve strict control of the organization in order to ensure efficiency” (Miles *et al.* 1978: 551). In order to solve this problem the defender will pursue a mechanic administrative strategy, which includes intensive planning, centralized control, extensive division of labor and hierarchical communication. This type of structure is therefore well suited for maintaining efficiency.

The administrative problem of the **prospector** is: “How to facilitate rather than control organizational operations” (Miles *et al.* 1978: 553). Thus the purpose of such an organization is to discover and exploit new product and market opportunities. In order to do this, these organizations tend to invest heavily in professionals, whom need high levels of flexibility. The prospectors operate around a number of centralized units and projects instead of centrally controlling the organization. For this reason the prospector organizations are seen as being organic.

The **analyzers** face the administrative problem of: “How to differentiate the organization’s structure and process to accommodate both stable and dynamic areas of operation” (Miles *et al.* 1978: 555). Hence, this organization type is based on creating balance. The analyzer structure is often characterized by a matrix structure, which is supported by intensive planning, centralized control mechanisms in the functional units and decentralized control in the product groups in order to create the optimal balance between the stable and dynamic areas of the organization.
The final type that Miles et al. (1978) defines is not so much an organizational type as a ‘last way out’ as a reaction to the environment and is seen as both unstable and inconsistent alternative. This type of strategy is pursued, when an organization fails to properly pursue one of the three other organizational types. The Reactor strategy is one which cannot be pursued indefinitely unless the organization is operating in a protected environment. For this reason the reactor strategy will not be seen as a valid organizational type as it will not be one that an organization would choose.

Another major determinant of culture is the values, norms and beliefs, which the members of the organizations possess. These cultural traits are what create the foundation for the thoughts and actions of the members of an organization, hence highly influencing the wellbeing of the organization. In the following we will discuss the work of Schein (1985) and its place in our framework for analyzing organizational culture. It is important to note that in order to conduct a thorough analysis based on Schein; it requires in-depth knowledge and access to detailed information within the organization, which in our case is not always available in detail.

“As Organizational culture is a pattern of basic assumptions - invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration - that has worked well enough to be considered valid, and therefore to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”

(Schein 1985: 9)

As mentioned, Schein has created a conceptual framework dividing culture into three levels: artifacts, espoused values, and basic underlying assumptions (Schein 1985). Schein defines the artifacts as being the visible organizational structure and processes connected to a specific group. These artifacts are seen as being easily observable but difficult to interpret. The espoused values are beliefs and values which have been socially accepted after being displayed by leaders and have proven to be successful in the sense that they have reduced the uncertainty connected with certain processes. As these assumptions continue to prove useful they gradually transform into assumptions which are taken for granted. These are now the basic underlying assumptions which are supported by articulated rules of behavior, norms and beliefs. In cases where these assumptions are strongly held in a group, cultural change
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becomes highly difficult as the members of the group tend to see the assumptions as being of such importance that they do not question or confront them (Schein 2004: 31). According to Schein, high levels of concern are connected to the review of basic assumptions as this process weakens the known settings in the organization.

By analyzing and identifying corporate culture it is possible to predict some of the responses companies will have to M&As. When merging two separate cultures it is imperative to analyze how the integration process will affect the company during and after the merger. In order to distinguish between levels of cultural integration in M&As Berry (1983) suggested a model of acculturation. The model includes four modes of acculturation: integration, assimilation, resistance and deculturation. The first two modes takes place in the case of a so called friendly merger, where the acquired firm sees the merger as positive and attractive, whereas the last two modes takes place when the acquired firm sees the merger as unattractive and of no value. This is what often leads to hostile takeovers.

According to Nahavandi & Malekzadeh (1986) integration is the most likely mode of adaptation to the acquirer when the merger is seen as valuable to the acquired firms and the acquired firm simultaneously values its own identity. Integration involves no loss of cultural identity, from either firm. After the acquisition the acquired company incorporates some of the acquirer’s culture but remains a separate cultural entity so that the company’s uniqueness is retained.

Assimilation entails the less dominant part to adopt the identity of the dominant part. Therefore this mode requires that the acquired firm is willing to abandon its own culture. The culture of the acquired company is replaced by the acquirer and the acquired company is no longer distinguishable as a separate cultural entity.

Resistance occurs in cases of conflict between the two parties in that the acquired firm values its own identity and do not see any particular benefits from the merger. Any attempt to convince the acquired company of embracing the merger is met with further resistance. In this case, the actual or potential benefits of the merger are often either delayed or destroyed.

Deculturation is the case, when the acquiring firm it not welcome, but the acquired firm does not value its own identity either. This is the case because the company has not developed a
strong and successful culture. Instead the acquired company is destroyed as a cultural entity and a new culture must be created.

Nahavandi & Malekzadeh (1988) mention some fundamental shortcomings of their research. Companies do not always agree on the mode of acculturation. Any incongruence between the acquirer and the acquired company will lead to acculturative stress. This stress will hinder the merger by creating resistance.

In our case studies we will examine motivations for initiating the M&As in order to determine cultural challenges in each case. The historic cases will give us insights into what type of acculturation that followed the M&A and whether this was a prudent way of integrating the two companies. In our primary case we cannot at this point determine the exact way the acquisition will be conducted but we will provide our best estimate of what lies ahead for the two companies.

Lewin (1951) suggested that change can be divided into three stages. The unfreezing where the existing values, norms, objectives etc. are subject to pressure either from within or outside the organization. Hereafter follows the movement stage where said norms and values are transferred into a new context and undergo a transformation. Finally the new norms and values are refrozen meaning that they are accepted by the organization. This cycle repeats itself whenever there is pressure on the organization. Zand & Sorensen (1975) conducted an elaborate test of Lewin’s model and concluded that there was a strong correlation between the forces supporting or hindering the three stages of change management and the subsequent success of change. The study also concluded that managers should be careful when initiating the unfreezing so that they do no spark resentment and resistance in the following phases. If managed correctly the refreezing should circularly reinforce the success of the overall change. Schein (2004) concludes that unfreezing comes from unlearning and that people will not unlearn until the level of crisis is higher than the level of learning anxiety. Refreezing occurs when the new order of the day has been internalized. This process is hampered by the employees’ fears of incompetence and punishments. Culture has a significant impact on the unlearning and relearning processes. The culture can either facilitate or hinder the efficiency of change and as such it is of the utmost importance.
Beer & Nohria (2000) finds change to be a more complex task. The change is situated around six dimensions: goals, leadership, focus, process, reward system and use of consultants. Change can be achieved by following either the economic value (E) or organizational capability (O) strategy. The E strategy is focused on the “hard” dimensions of the organization and focus is on profit maximization and shareholder value. The O strategy focuses on “soft” dimensions such as organizational learning and competency building. Whilst both have their pros and cons the paper concludes that the optimal solution to managing change is through a combination of the two theories.

The main difference between Lewin’s and Beer & Nohria’s models is the complexity of the change process. Lewin argues that change occurs when a certain level of dissatisfaction is reached and that change is a movement from one static stage to another. Beer & Nohria’s model sees change as a continuous adjustment and therefore it requires a more complex response. In our paper we will use the simple definitions of change based on Beer & Nohria’s E and O change strategies in order to assert the influence of culture on the change process that occur when companies merge. However the approach to change Lewin suggested will be incorporated as we analyze the primary case.

4.3 The components of corporate culture

Corporate culture, as it has been described so far, is a rather elusive concept. We have examined several theorists in order to validate our theory of which components create a corporate culture. Furthermore we argue that the dimensions will provide us with a tangible way to measure this corporate culture. This will enable us to understand the challenges each culture poses in an M&A situation and how it can be managed.

Based on our research we propose that organizational culture is created by the following two overall dimensions:

- The structural setup of the company
- The values, norms and beliefs of the employees of the company
The two dimensions are partially derived from an earlier attempt to define culture. Johnson (1988) suggested that corporate culture was comprised of seven components: the paradigm, control systems, organizational structure, power structure, symbols, rituals and routines as well as stories and myths. However we feel that many of these components are so strongly interrelated that it makes little sense to keep them apart. This conclusion is based on the research previously reviewed.

In order to create a usable framework, which eases the process of analyzing the corporate culture of specific organizations the following sections will discuss the factors in each of the two dimensions which needs to be examined when clarifying and comparing corporate cultures. The factors which we have settled upon has been drawn from the research previously reviewed. Table 4.6 lists the determinants which we believe fall into these overall dimensions of corporate culture.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Determinants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values/norms/beliefs</td>
<td>• Artifacts</td>
</tr>
<tr>
<td></td>
<td>• Espoused values</td>
</tr>
<tr>
<td></td>
<td>• Basic underlying assumptions</td>
</tr>
<tr>
<td>Structure</td>
<td>• Centralization/Decentralization</td>
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<tr>
<td></td>
<td>• Degree of formalization</td>
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<td></td>
<td>• Degree of standardization</td>
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<tr>
<td></td>
<td>• Stability vs. Flexibility</td>
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<tr>
<td></td>
<td>• Long vs. short decision making process</td>
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<tr>
<td></td>
<td>• Hierarchical vs. Fluid structure</td>
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<tr>
<td></td>
<td>• Innovation vs. Mass production</td>
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</tbody>
</table>

Based on the determinants for organizational structure we have chosen to use the organizational types presented by Mintzberg (1980) and Miles et al (1978). Figure 4.7 shows how we have compared and contrasted the types presented by these theorists. As the theories
have proven to contain several similarities we believe that by combining the two, our characterizing arguments will become more valid.

*Figure 4.7: Comparing Mintzberg & Miles et al.*

Centralization

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td>F B</td>
<td>D</td>
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<tr>
<td>H A</td>
<td>G</td>
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<tr>
<td>C</td>
<td>E</td>
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Formalization

<table>
<thead>
<tr>
<th>Much</th>
<th>Little</th>
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<tr>
<td>F B</td>
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<td>H</td>
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<td>C</td>
<td>E A</td>
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Stability vs. Flexibility

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<th>Stable</th>
<th>Flexible</th>
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<td>F B</td>
<td>D</td>
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<tr>
<td>C H A</td>
<td>E G</td>
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Decision-making

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<tr>
<th>Long</th>
<th>Short</th>
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<tbody>
<tr>
<td>F B</td>
<td>D</td>
</tr>
<tr>
<td>C G H</td>
<td>E A</td>
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Level of innovation

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>F B</td>
<td>D</td>
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<td>C H</td>
<td>E A G</td>
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Standardization

<table>
<thead>
<tr>
<th>High</th>
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<td>F B</td>
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<td>C H</td>
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Hierarchical vs. Fluid

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<th>Hierarchy</th>
<th>Fluid</th>
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<tr>
<td>F B</td>
<td>D</td>
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<td>C H</td>
<td>E A G</td>
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Mechanic vs. Organic

<table>
<thead>
<tr>
<th>Mechanic</th>
<th>Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>F B D</td>
<td>C H</td>
</tr>
<tr>
<td>E A G</td>
<td></td>
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</tbody>
</table>
It is important to note that the way we have placed the different organizational types on the axes are based on our interpretation of the theories put forward. Neither Mintzberg nor Miles et al. makes use of stringent placements, but we have elected to so, as we feel it will aid us in producing a tangible framework.

It can be seen that there are certain groupings when comparing the organizational types of our two chosen theorists. Mintzberg’s *Machine Bureaucracy* (B) and Miles et al.’s *Defenders* (F) share many characteristics. Both tend to be highly centralized with a long decision-making process and a very hierarchical structure. These types of organizations usually standardize jobs, as they work in a stable environment. These organizations are therefore best suited for carrying a standardized and constant product portfolio. Overall these organizations can be characterized as being mechanic in nature. Mintzberg’s *Divisionalized Form* (D) is closely linked to the previous structures. What makes the divisionalized form different is the division of the organization into teams or units, which, to a certain extent, operate separately from the rest of the organization. This automatically results in a lower level of centralization on the overall organizational level, whereas the individual units are still highly centralized.

The next grouping is characterized as being highly organic. This grouping includes Mintzberg’s *Simple Structure* (A) and *Adhocracy* (E) as well as Miles et al.’s *Prospectors* (G). These structures are all based on very fluid organizations where very little hierarchical structure is present. This fluid structure results in very short decision-making processes, which is imperative in order to work in a highly innovative environment. Due to this need for flexibility the individual tasks are also fluid rather than clearly defined.

The remaining two structures are Mintzberg’s *Professional Bureaucracy* (C) and Miles et al.’s *Analyzers* (H). These types of organizational structures are neither organic nor mechanic. They are both highly dependent on professional employees, who need a certain level of autonomy and space in order to complete their tasks. For this reason the support functions may be highly centralized, but the production units will be highly decentralized. The organizations pursuing these types of structures are the ones involved in long term processes where further development of products is highly complex.

We expect these comparisons to prove to be a highly useful tool in our case studies as it will enable us to define an organizational structure based on the determinants described above.
Schein (1985) has been used as the base for our choice of determinants in creating the dimension of values, norms and beliefs. This dimension is difficult to analyze if the purpose is to create clear static categories. However, this is not our intention. Rather we are interested in determining and clarifying the various aspects and hereafter comparing these in order to conclude whether differences or similarities can be an obstacle in a particular merging process.

The concept of organizational culture can be viewed as an iceberg, where most of it is hidden from our view and consciousness. The artifacts are, as previously described, the visible organizational attributes, which can easily be observed by outsiders, but can be difficult to understand. The espoused values lie below the surface and are ideas put forward by management which have proven successful in the past. The basic underlying assumptions are the bottom of the iceberg and represent the ideas, which have been accepted by the members of the organization and are no longer questioned as they have become part of the everyday life in the organization. When identifying the three levels the focus should be on the issues described in figure 4.8.

**Figure 4.8: Schein’s cultural levels**

<table>
<thead>
<tr>
<th>Artifacts</th>
<th>Espoused values</th>
<th>Basic underlying assumptions</th>
</tr>
</thead>
</table>
|  • Technology  
  • Symbols  
  • Rites & ceremonies  
  • Stories & myths  
  • Sayings  
  • Procedures |  • Public values and principles that the organization’s leaders announce it intends to achieve: - Mission statements  
- Goals/Ideals  
• Become actual values when they are validated by being demonstrated |  • Unconscious beliefs and values that structure feelings, perceptions, thoughts, and actions that members of a culture view as the only correct understanding of life  
• Do not require validation as they are articles of faith |

Based upon Francesco & Gold 2005: 260-262
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As can be seen from figure 4.8 the artifacts present in an organization are objects such as the physical space, the technology utilized, the written and spoken language, and generally the observable behavior of the members of the organization. It is important to note that these artifacts are not necessarily clear to the members themselves. The members may be incorporated so fully into the environment that they become unable to list these artifacts. However, these artifacts can be observed by an outsider if he or she knows what to look for (Schein 1985). It has not been possible for us to observe our chosen case companies, since we are dealing with two historical M&As. Also the distance to the acquirer in our primary case company makes this strategy unfeasible. Therefore we will attempt to analyze the artifacts in our case companies based on desk research as well as through interpretation of our interviews with Metalock executives. We find this to be a highly realistic approach since many companies do not have the opportunity to conduct participative observations either. The uncovering of values and artifacts are done in the pre-merger stage before the actual choice of merging partner has been finalized. This limits the access as well as the resources available to invest in the project.

When deciphering the values of an organization it is important to distinguish between what people say they will do in a given situation and what they will actually do in a situation. The espoused values are not necessarily the reality as a company’s record may contradict a certain statement of a company’s values. It is therefore important to discriminate between the values that are congruent with underlying assumptions and those that are aspirations (Schein 1985: 17). It is exactly this issue which is imperative in our case analyses due to our approach of desk research and interviews. We can determine what the goals and aspirations of the companies are, but only some of these can be documented without access to internal and classified material. However, we feel that we will be able to conduct a thorough analysis despite the lack of these specific insights.

When a hypothesis proves to be successful repeatedly, it comes to be taken for granted and hence becomes an underlying assumption. If the assumption is strongly held within an
organization, the members of the organization will find it inconceivable to pursue any other alternative (Schein 1985: 19).

When examining the corporate culture of our chosen case companies we will strive to analyze each of Schein’s three levels of culture through the use of the dimensions presented in figure 4.8.

### 4.4 Managing the merger process

A merger can be very disruptive for a company and may lead to losses despite the optimistic projections at the pre-merger stages. Therefore it is imperative that the merger is managed from the beginning. As all people are resistant to change on some level, management must ensure that the transfer goes smoothly and that relevant information is distributed on a timely manner.

As mentioned in the literature review, there are three stages of change: unfreezing, moving and refreezing (Lewin 1951). The unfreezing process begins as soon as the merger is announced. Employees begin to wonder what the implications will be, will they all retain their jobs, how will procedures change etc. The degree of uncertainty the merger creates is affected by the type of merger and culture found in the two companies. The friendly mergers usually spark less resistance as both companies have some say in the integration process. However the employees may soon see themselves reorganized or superfluous, which will be a major shock if it has not been communicated correctly. Culture cannot be changed directly but introducing new values as well as new structures will create a new culture over time. When dealing with international M&As the national cultural bias also has a say. Cultural stereotypes will have a major impact if workers with different national backgrounds are integrated and contribute to the underlying beliefs flourishing in the companies (Berry 1980, Schein 2004).

The following moving phase happens when changes in the company is implemented. These changes range from virtually undetectable to major reorganizations of employees, resources, procedures and processes. In the case of integration the changes are minimal and both companies are allowed to retain their individual cultures (Nahavandi & Malekzadeh 1986). Therefore the scope of change management will not be particularly wide. The other extreme is in the case of deculturation. Here both companies discard their original culture and establish a
new one. This process is characterized by high resistance by the acquired company as well as a high degree of uncertainty for the employees of both companies. In such an instance the ability to manage change becomes important.

The final part of Lewin’s model is the refreezing phase. The changes that have been implemented must now be locked in so that they are accepted as part of everyday life in the company. However in a modern company the refreezing phase is difficult to achieve. As the world becomes more dynamic changes occur more frequently and employees often find it futile to freeze processes that they know will be changed soon (Hughes 2006: 112).

Our view is that to achieve a successful merger, cultural change has to be managed through the entire process. As we have mentioned earlier there are several other factors that contribute. We believe that in order to bring about change, culture is one of the most important dimensions. This view is supported by Deal & Kennedy (1982: 23) arguing “that culture, rather than structure, strategy or politics, is the prime mover in organizations.” Since culture is found at both conscious and unconscious levels (Schein 2004) change in culture has never been managed but has rather been allowed to develop at its own pace. However in the time of modern management theory a plan is needed for changing culture. A much generalized plan has been formulated by Morgan & Sturdy (2000: 10):

“First, identify the current shared values and norms of the organization; second, state what the culture should be; third, identify the gap between the two and develop a plan to close it.”

Simple as this plan is, it is exactly what needs to be done in our situation. In our primary case we are dealing with two organizations that need to manage the changes induced by the acquisition. Naturally the way this is done depends on the specifics surroundings. By analyzing the corporate culture we will be able to suggest how cultural differences can be aligned according to the aspirations of each company.

Before we continue it is necessary to discuss a fundamental dimension of change management in relation to culture. The question is: Can cultural change be managed? The impediments to management of cultural change can be summarized in five points (Salaman & Asch 2003 cited in Hughes 2006: 122). First, it is suggested that organizational culture is an explanation for organizational behavior rather than a solution to change. In other words changing culture is
not a universal tool for solving all the organizations problems. Secondly, culture has never been defined clearly and no single definition exists. Therefore it would seem difficult at best to manage such a thing. Third is the time horizon of cultural change. Organizational change may happen over the course of years and it is not easy to track these changes. Point number four is whether senior management is really able to change culture significantly. It is postulated that changes come about in a more evolutionary way. Finally any cultural change management may result in a change of the official version of an organization, but leave the unofficial unaltered. The official version is the values, norms etc. described by the organization but this version is not always a true representation of how the organization is working (Hughes 2006: 125). These points are all valid. However it is our opinion that cultural change can be managed to some degree. We agree that corporate culture in no way is the key to all change management, but we argue that managing culture successfully will ease the transition from one stage to another, in our case the changes brought about by M&A activity. Although we find that a distinct definition of culture is not available, we have suggested several parameters that can be examined to identify a corporate culture. Culture may change over a long period of time. However change may be brought about through evolution or revolution (Jones et al. 2006: 339). Finally, we believe that culture is never the object of change (Schein 2004). Rather culture is a facilitator of change in belief systems and processes. The culture is influenced by decisions made by management, but being a very intangible concept, it is virtually impossible to change it directly.

There are several ways to manage change. A strategy of economic value (E) or organizational capability (O) has been suggested by Beer & Nohria (2000). The economic value strategy focuses on change through value maximization. In order to successfully change, the company focuses on shareholder value by using tools, such as economic incentives as well as restructuring and lay-offs. In contrast, the organizational capability focuses on the “softer” sides of change by developing corporate culture and human capabilities. The key word in this strategy is learning. None of these strategies are superior at achieving its goals; rather the choice is dictated by the specific case. However, Beer & Nohria (2000) suggested merging the two strategies in order to create a more universal formula for change. The combined strategy is to delegate equal attention to the hard and soft sides of change and create shareholder value
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whilst evolving the corporate culture. The specifics of each strategy can be seen in table 4.9. We have removed the use of consultants as a parameter for managing change, as we find that the way consultants are utilized to bring about change, does not impact cultural integration significantly.

Table 4.9: E and O strategy

<table>
<thead>
<tr>
<th>Dimensions of Change</th>
<th>Theory E</th>
<th>Theory O</th>
<th>Theories E and O Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>Maximize shareholder value</td>
<td>Develop organizational capabilities</td>
<td>Explicitly embrace the paradox between economic value and organizational capability</td>
</tr>
<tr>
<td>Leadership</td>
<td>Manage change from the top down</td>
<td>Encourage participation from the bottom up</td>
<td>Set direction from the top and engage the people below</td>
</tr>
<tr>
<td>Focus</td>
<td>Emphasize structure and systems</td>
<td>Build up corporate culture: employees' behavior and attitudes</td>
<td>Focus simultaneously on the hard (structures and systems) and the soft (corporate culture)</td>
</tr>
<tr>
<td>Process</td>
<td>Plan and establish programs</td>
<td>Experiment and evolve</td>
<td>Plan for spontaneity</td>
</tr>
<tr>
<td>Reward System</td>
<td>Motivate through financial incentives</td>
<td>Motivate through commitment - use pay as fair exchange</td>
<td>Use incentives to reinforce change but not to drive it</td>
</tr>
</tbody>
</table>

Source: Beer & Nohria 2000

One of the major obstacles in change management is the inherent resistance to change found in any organization or individual. Whilst change may be welcomed it creates an increased amount of uncertainty that instinctively will be avoided whenever possible (Hughes 2006: 119). If change is to be managed successfully it is important to address this problem. To a certain degree the resistance to change is negatively correlated to the degree of participation and influence the members of the organization have on the change process (Brehm 1966 cited in Hughes 2006: 121). In our context this means that when dealing with a voluntary merger between organizations that resembles each other the resistance to change should be minimal. On the other hand, a hostile takeover with downsizing and layoffs as a result should result in a high degree of resistance.
In our primary case study we will examine how change can be managed in order to align the corporate culture of Metalock based on the aspirations of both MAN Diesel and Metalock. While we do not examine the financial impact of the change in detail, the focus on change will have a significant impact on that culture. If the object of the change is purely financial the culture will be more competitive and it is likely that any restructuring and layoffs will influence the creation of a new culture (Beer & Nohria 2000). If the merger has other less tangible motives such as consolidation of market shares or transfer of technology\(^1\) the new culture may be geared towards creating a more harmonic and attractive working environment thus retaining employees and minimizing conflicts. When analyzing the primary case we will examine whether any initiatives or policies have been implemented in order to facilitate change. We expect to determine which change strategy has been used in the case and whether this is optimal in the long run. It is important to note that the integration in our primary case is still ongoing and that some of the results of change management will be based on predictions.

\(^1\) These two examples can arguably be seen as financial but we strive to distinguish between direct and indirect financial motivations throughout the paper
Part 5: Case studies

The following sections will examine historic cases of international M&As in order to ascertain whether the framework presented can be utilized in a practical setting. By analyzing these cases we will derive a number of conclusions that can be used in the final primary case. We have chosen to study the acquisition of Zanussi by Electrolux and the merger between Daimler-Benz and the Chrysler Corporation. These two cases have different approaches to M&As and the outcome differs widely giving us a broader knowledge of the processes involved.

5.1 Case: Electrolux acquiring Zanussi

In 1984 Swedish white goods manufacturer, Electrolux, acquired their Italian counterpart, Zanussi, in a major deal that allowed both companies to prosper. We will examine the historical evidence in order to ascertain what agreements were made, how successful the acquisition was and what mistakes were made. Thus we expect to discover evidence on how the cultural integration was achieved and how the key factors we have found influencing M&A deals have impacted the process. Ghoshal & Haspeslagh (1990) produced a case which we along with the annual reports of Electrolux have used as the primary sources of data for this case study. We are aware that some of the material may not reflect the reality perfectly, but we believe that the data is sufficient to provide a valid account of the acquisition process.

5.1.1 Introducing Electrolux

Electrolux hails back to the early 1900s where the company Lux AB was set up in Sweden to produce light bulbs for both domestic and industrial applications. In 1919 the company merged with Elektromekaniska AB creating the company Electrolux AB (Electrolux 2008). The new company began producing vacuum cleaners and later branched off into white goods as the technology was invented. During the 1950s Electrolux began expanding their production plants to other parts of the world, for example in Brazil and Australia.
Electrolux’s strategy was to grow through acquisitions. By 1988 the company had acquired 200 companies in 40 countries (Ghoshal & Haspeslagh 1990), making the company a veteran in the M&A business. The focus of the acquisitions was on related companies where core businesses were retained whilst operations with little profit potential or otherwise uninteresting were sold off. However some flexibility in the matter was retained as Electrolux was willing to enlarge its product portfolio wherever it seemed profitable. Thus Husqvarna was acquired in 1978 and the sideline operation of chain-saw manufacturing retained and made into a profitable product (Ghoshal & Haspeslagh 1990). Prior to the acquisition of Zanussi, Electrolux had its main markets centered in Western Europe and North America with approximately 30% of sales coming from the United States and 30% from Scandinavia.

5.1.2 Introducing Zanussi

Like Electrolux, Zanussi was a very old and well respected company. Zanussi began producing wood burning cookers in Italy in 1916. In the 1950s and 1960s the company expanded its production lines to provide a comprehensive portfolio of home appliances. Inventing several new products such as the gas cooker (Zanussi 2008) and by keeping up with the general development of the market, enabled Zanussi to grow until the company in 1980 had some 30,000 employees, 50 production facilities and a huge international sales network (Ghoshal & Haspeslagh 1990). One of Zanussi’s characteristics was a high reliance on vertical integration. Both suppliers and distribution networks were acquired thus enabling Zanussi to control the entire value creating chain. Although unconfirmed, a rumor circulated that Zanussi considered acquiring Electrolux in 1965 when Electrolux was a smaller and less successful company.

However the growth had not been painless. After losing most of senior management in a plane crash in 1968 the company took on a new strategy of unrelated diversification. This strategy led to a lack of focus on the core business units whilst the new ventures incurred heavy losses (Ghoshal & Haspeslagh 1990). In 1982 an attempt to reverse the damage was made. The company sold off unprofitable units and laid off 4,400 employees. This attempt was in vain since Zanussi had accumulated a debt of more than SEK 4 billion at the end of 1983. Also losses amounted to a total of SEK 203 million in 1983 pointing to a faltering company in dire need of a capital infusion and a massive reorganization.
5.1.3 Strategic motives for acquiring Zanussi

The acquisition was proposed in late 1983. Interestingly Electrolux did not make the initial contact. Rather Mediobanca, the largest of Zanussi’s financiers, inquired if Electrolux would have an interest in acquiring Zanussi (Ghoshal & Haspeslagh 1990). Thereby it would be possible for Mediobanca to retain their invested capital rather than having Zanussi declared bankrupt and liquidate the company assets.

Electrolux had been growing and delivering a more than reasonable return on equity in the previous years (See figure 5.1). This gave the company a strong base for expanding operations. Furthermore Electrolux had recently sold off some of its suppliers and unrelated business divisions in order to consolidate the company (Electrolux 1983). This move provided Electrolux with a large amount of capital that could be invested in related businesses with profit potential. The company had started down this road by launching a bid for German AEG earlier in 1983, but this bid was unsuccessful as the conditions of the takeover were found to be too severe (Ghoshal & Haspeslagh 1990).

In terms of strategy the acquisition of Zanussi made very good sense. Zanussi had a major presence in Southern Europe where Electrolux had not been able to gain inroads up until this point. Also Zanussi’s product lines were best developed along the wet products, e.g. washings machines, whilst Electrolux had vacuum cleaners and microwave ovens as their traditional products. By acquiring Zanussi Electrolux would be able to field a more comprehensive product portfolio. Another very important factor in the acquisition was Zanussi’s integrated suppliers. After an acquisition Electrolux could take advantage of Zanussi’s know-how in manufacturing components as well as utilize some of the excess capacity of the existing supply plants (Electrolux 1984).

In December 1984 Electrolux took over 49% of the Zanussi shares with an option to increase this amount to 75%. An important part of the acquisition was the leniency of Zanussi’s creditors who agreed to have debt payments postponed until January 1987 and agreed to a very low interest rate in this period (Ghoshal & Haspeslagh 1990).
5.1.4 Strategic challenges

The acquisition was not without complications. Zanussi had several medium to long term investments with government backing in both Italy and abroad. Electrolux agreed to take over these investments in order to facilitate the acquisition more smoothly. Some legal tangle also existed due to a sale and lease back agreement Zanussi had made with a German company. This move was illegal according to Italian law and Electrolux refused to continue the acquisition process until the Italian government had issued a guarantee that no legal repercussions would be made (Ghoshal & Haspeslagh 1990). Another major challenge was the strong Italian unions. The workers of Zanussi were afraid that their jobs might be at risk. This concern was, in our opinion, one of the biggest challenges to integration of the two companies and we will look at the steps Electrolux took to ensure that the workers and their unions were satisfied.

5.1.5 National cultural influence

Sweden

According to Hofstede (1980) the Swedish culture is characterized by having a low level of power distance (PDI) of 34, which means that the Swedes have low tolerance of inequality and prefer decentralization as they expect all members of society to be consulted (see figure 5.2). Organizations in general are highly focused on participation and development at all levels, rather than focusing on top management.
The Swedes’ high level of individualism (IDV=71) indicates that they generally act on their own behalf, rather than on the behalf of the group or society as a whole. This type of culture emphasizes individual initiative and achievement and expects individuals to take care of themselves. Furthermore private life is kept sacred and is not to be mixed with professional life.

The Swedes have a very low level of masculinity (MAS=5) compared to the European average of 52 (Itim International 2008), which means that the society is based on social gender roles which overlap. Thus equality based on gender is stressed. Feminine values are the foundation for society, hence work is seen as a means of living, rather than life is seen as a means for working. Relationships are nurtured and the quality of life is high on the agenda.

The Swedish level of uncertainty avoidance (UAI=29) is fairly low compared to the average European level of 69 (Itim International 2008). This indicates that the Swedes are open to change and tolerate diversity. They do not feel threatened by ambiguity, they see it a challenge rather than a problem.

The long term orientation is also fairly low for Sweden. They strive to see quick results and the bottom line is far more important than the building and preservation of relationships.

According to Gesteland (2002) Northern European countries can be characterized as being deal-focused cultures. Swedes in particular are highly efficient and like to get down to
business. Whenever possible they prefer to skip the small talk and are very blunt in their manner. The culture is very informal and egalitarian, which is portrayed in the use of flat business structure, where direct communication between top executives and junior employees is common. This efficient approach is closely connected with the concept of monochronic time management, which implies that punctuality and speed are top priorities. Furthermore, the flat structure and direct approaches are also indicators of the attention given to equality. However, despite the informal manner, the Swedes are in general a highly reserved group. They are very soft spoken and famous for their sense of modesty and moderation. They find interruption insulting and are generally not interested in displaying emotions (Gesteland 2002: 299-304).

Italy

According to Hofstede’s (1980) work (see figure 5.3), Italians have a ‘medium’ level of power distance (PDI=50). This indicates that they tolerate inequalities to some extent. It is furthermore a sign that they respect authorities to a certain extent and there is no shame in displaying your power and status. This level of power distance results in fairly hierarchical organizational structures.

![Figure 5.3: Hofstede’s Cultural Value Dimensions for Italy](source: Hofstede & Bond 1988)
The Italians are rather individualistic (IDV=76), meaning that the take care of individual interests and needs. However, they also have the collectivistic nature when it comes to the extended family.

The fairly high masculinity index (MAS=70) portrays a culture focused on masculine cultural values, which mean that money and belongings are important, rather than relationships and the quality of life. Society is built upon the individual rather than oriented on relationships.

The Italians have a high level of uncertainty avoidance (UAI=75). Thus society is based on conservative values and behavior. Change and diversity are looked upon with skepticism and rules and regulations are established in order to maintain order.

Gesteland (2002) characterized Italy as being moderately deal-focused as they are focusing on closing the deal rather rapidly, but to Italians small talk is important due to their very hospitable and outgoing nature. Their business structures are usually formal and hierarchical, which is seen in the respect for superiors. Italians’ time management is moderately monochronic according to Gesteland, which means that they have a fairly relaxed attitude to being on time. The Italians are expressive in nature. They prefer face-to-face contact to dealings over the phone or email as they appreciate the closeness and eye contact during proceedings (Gesteland 2002: 256-258).

**Comparison**

Based on Hofstede’s cultural dimensions, it can be concluded that Sweden and Italy share both similarities and differences in their cultural values. The power distance index (PDI) is quite close in the two countries. Both lie in the low to medium level, which indicates that neither country is highly influenced by hierarchical business structures or inequality. The two countries are close to being equal in the individualism index (IDV), as both score fairly high. Hence, both countries are subject to acting on one’s own behalf, and focusing on achievement rather than belonging. Private life is kept separate from professional life rather than being occupied by institutions. These common features could ease an M&A process as structural changes in terms of hierarchical levels and chain of command are unnecessary. Furthermore the focus on achievement enables an acquiring organization to focus on professionalism and career development when dealing with the retention of employees.
However when dealing with the masculinity index the cultural differences are clear. Sweden’s masculinity level is very low, whereas Italy’s is fairly high, meaning that in case of cross border dealings masculine and feminine cultural values need to interact. The Swedish very direct and to the point manner might appear rather rude and cold in the eyes of the more relationship oriented Italians.

Another clear difference is seen in the uncertainty avoidance index, which shows a more positive attitude towards change and innovation in Sweden compared to the more skeptic Italian view. This could very well result in a need for a slower paced process in the case of a Swedish company taking over an Italian in order to avoid worsening the implementation of change.

Gesteland characterizes both Sweden and Italy as being deal-focused, though at different levels. This common focus enables a quicker closing of deals and in our case a quicker dealing with implementation and change. Gesteland sees a difference in the level of formalization of the two countries as the Swedes are rather informal and egalitarian, whereas the Italians tend to stick more to the formal and hierarchical approach. This could impede the integration of business structures in case of an M&A as the chain of command would probably have to be drastically changed in either company. In terms of time management the Swedes are clearly monocronic whereas the Italians are moderately monocronic. Where the Swedes would be very strict in terms of deadlines, the Italians might hinder quick progress in the merging process. Lastly the reserved Swedes facing the expressive Italians could cause minor issues in terms of closing the deal, as the Italians prefer the dealing to be handled face-to-face, which could slow down the pace of the process.

5.1.6 Organizational structures prior to the acquisition

The organizational structure of Electrolux in the 1980s was characterized by a flat decentralized setup with much of the authority delegated to subsidiaries all over the globe. Electrolux was a multinational corporation with both production and distribution channels all over the globe. The corporate headquarter was situated in Lilla Essingen near Stockholm, Sweden (Ghoshal & Haspeslagh 1990). Here all major decisions regarding strategic investments and product development were taken but only a bare minimum of staff was assigned to this facility.
“I believe that we have at least two hierarchical levels fewer than other companies of the same size and all operational matters are decentralized to the subsidiaries.”

Anders Scharp, President of Electrolux (Ghoshal & Haspeslagh 1990: 897)

In order to retain a flexible approach only a few administrative executives were assigned to each major product line. Much of the decision-making power lay with local executives in the various subsidiaries as can be seen from figure 5.4. Electrolux had several production facilities over the world. Products would be made close to their destination markets thereby speeding the delivery and reducing transport and inventory costs. It should also be noted that Electrolux in several instances owned several subsidiaries in a given country. Separate sales forces were maintained for each brand however support and administrative functions could be joined together (Ghoshal & Haspeslagh 1990).

**Figure 5.4: Structural setup of the Electrolux AB group**

![Figure 5.4](image)

Source: Electrolux 1984

In relation to our model for analyzing organizational structure (Figure 4.7) we see that Electrolux is a fluid company with a low degree of centralization as well as a high degree of flexibility and innovation. Our best match for labeling Electrolux would be an *Adhocracy*. However, as we have discussed, the definitions are stereotypes and not found in reality and so
some parts of Electrolux does not adhere to the definition we have proposed. Electrolux also exhibits tendencies towards the *prospector* structure which is natural since this structure share many similarities with the adhocracy. From this we can conclude that Electrolux is a highly innovative and organic company with the ability to adapt to a changing environment. This also gives them a significant edge in acquiring and integrating new business units as change is easier to accept in an organic structure.

**Figure 5.5: The organizational structural determinants of Electrolux and Zanussi**

<table>
<thead>
<tr>
<th>Centralization</th>
<th>Formalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Much</td>
</tr>
<tr>
<td>Low</td>
<td>Little</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stability vs. Flexibility</th>
<th>Decision-making</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable</td>
<td>Long</td>
</tr>
<tr>
<td>Flexible</td>
<td>Short</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of innovation</th>
<th>Standardization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hierarchical vs. Fluid</th>
<th>Mechanic vs. Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchy</td>
<td>Mechanic</td>
</tr>
<tr>
<td>Fluid</td>
<td>Organic</td>
</tr>
</tbody>
</table>
The Zanussi group was divided into five sectors by product group. Each sector contained several companies, with the head of each sector reporting to the managing director. The sector managers were involved in the day-to-day management of the operating companies. A strong support team was assigned to each section manager. The management was divided in three layers. First came 60 top managers, followed by 150 middle managers and finally approximately 1000 lower level managers (Ghoshal & Haspeslagh 1990). From this we conclude that Zanussi was a relatively tall organization. Power was centralized and hierarchy was observed. However the middle managers were often out of the loop as the top managers dealt directly with the lower level managers through the worker unions (Ghoshal & Haspeslagh 1990). In the white goods business a high level of innovation was necessary to retain a competitive edge. Furthermore Zanussi, unlike Electrolux, relied on hand made production and did not own or operate a single industrial robot or computer until the merger (Ghoshal & Haspeslagh 1990).

The structure of Zanussi does not fit perfectly into our model but shares a number of characteristics with the *divisionalized* form. Overall Zanussi functioned as a number of individual firms tied together only by the top echelons. The head of each sector had his or her support staff as well as separate marketing and sales channels. The effect of this structure was that much of the company’s decision making power was centered on a few individuals who all exerted tight control over their share of the company.

If comparing the two organizational structures based on the structural types presented by Mintzberg and Miles *et al.* (see figure 5.5) it is clear that the two companies are rather different in nature. Electrolux’ *ad hoc* or *prospector* type based on flexibility, decentralization and innovation is distant to the *divisionalized form* of Zanussi, based on centralization, many levels and fairly standardized practices. The differences could result in resistance from Zanussi’s employees as they were used to being guided and directed by superiors, whereas the Electrolux management provided each employee with a level of authority and responsibility. Product development in Electrolux is furthermore a key issue, whereas Zanussi relied on fairly standardized products, which could lead to a major change for Zanussi employees as they would probably have to keep up with Electrolux standards in their specific product areas. However, as Zanussi were to be run as a separate division with their
product portfolio, no major structural changes would probably hit Zanussi as they were used to working in divisions.

### 5.1.7 Corporate cultural characteristics

When analyzing the acquisition of Zanussi by Electrolux it becomes apparent that the two cultures in terms of ‘the way we do things around here’ are very different (Morgan 1993). Electrolux’ corporate culture was highly influenced by Swedish national culture, which in particular can be seen in the emphasis put on speed and efficiency. This influence of national culture is also seen in Zanussi when looking at the rather laid back attitude as well as respect for superiors and hierarchies.

Electrolux was known for its aggressive strategy of expansion through acquisitions (Ghoshal & Haspeslagh 1990). Electrolux dealt with a large number of acquisitions; however specific companies were seldom targeted. As Anders Scharp puts is: “You never choose an acquisition; opportunities just come.” (Ghoshal & Haspeslagh 1990: 896). Each acquisition was regarded as unique and therefore needed to be dealt with differently (Morgan 1993).

Morgan (1993) identifies several cultural differences, which needed to be dealt with in order to establish a cultural fit between the two organizations. The most vital issues are listed in table 5.6.

An observable artifact is seen in the managerial differences of the organizations. Zanussi was originally family dominated, whereas professional management was tradition in Electrolux. A lot of Zanussi’s success ended when several Zanussi family members died in a plane crash in 1968 and lead to a decline in the company’s fortune (Morgan 1993). These artifacts portray values of personal involvement in the case of Zanussi, whereas Electrolux management and employees have a more distanced relationship to the organization.

Another artifact is seen in the fact that Zanussi had a history of acquisitions where top management was usually retained, whereas middle management would be replaced. This created an assumption that Electrolux would do the same, which lead to panic among middle managers when Electrolux’s acquisition of Zanussi was first announced (Ghoshal &
The Impact of Corporate Culture on International M&As

Haspeslagh 1990). In reality Electrolux’s focus during acquisitions was on replacing top management and retaining middle management.

### Table 5.6: Cultural differences of Zanussi and Electrolux

<table>
<thead>
<tr>
<th>External factors</th>
<th>Zanussi</th>
<th>Electrolux</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional mgmt</td>
<td>Family</td>
<td>Professional</td>
</tr>
<tr>
<td>Structure</td>
<td>Independent units</td>
<td>Integrated units</td>
</tr>
<tr>
<td>2. Strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>Conglomerate</td>
<td>Focused</td>
</tr>
<tr>
<td>Investment emphasis</td>
<td>Peripheral</td>
<td>Core Business</td>
</tr>
<tr>
<td>Post-acquisition focus</td>
<td>Middle mgmt</td>
<td>Top mgmt</td>
</tr>
<tr>
<td>3. Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control orientation</td>
<td>Decentralized</td>
<td>Centralized</td>
</tr>
<tr>
<td>Importance</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Evaluation emphasis</td>
<td>Profits/costs</td>
<td>Return on investment</td>
</tr>
<tr>
<td>4. Human relations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial relations</td>
<td>Union dominated</td>
<td>Democratic</td>
</tr>
<tr>
<td>Worker-mgmt</td>
<td>Closed</td>
<td>Open</td>
</tr>
<tr>
<td>5. Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity utilization</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Innovation</td>
<td>Absent</td>
<td>Priority</td>
</tr>
<tr>
<td>Quality</td>
<td>Poor</td>
<td>Total quality</td>
</tr>
</tbody>
</table>

Source: Morgan 1993: 116

The financial control in the organizations can be seen as another observable artifact. This control was weak in Zanussi and was based on cost and profit targets, whereas Electrolux prided themselves in having clear goals and supporting information systems focused on return on investment analyses in order to clearly illustrate the optimal investment solutions (Morgan 1993). These differences show that Electrolux values knowing what is ahead and preparing for this rather than reacting on what may come. This leads to the assumption that Electrolux employees must be structured, as well as goal and future oriented in their approaches, whereas Zanussi’s employees must be performance driven in terms of reaching sales targets here and now.
Based on the Italian culture, Zanussi was used to a closed environment dominated by unions, whereas an open and democratic culture prevailed in Electrolux. These unions can be seen as an observable artifact leading to the value of professional collective representation. An assumption here is the fact that the employees of Zanussi depend on collective agreements in their favor rather than relying on their own ability to negotiate salary, benefits and general employment terms. This actually contradicts the Italian national culture’s high individualism rating, which portrays a culture which relies on individual interests.

Zanussi had damaged its reputation by producing poor quality products, which had labeled the company as being a poor quality supplier. The company’s innovation furthermore stagnated and the capacity utilization declined. Due to the company’s unfortunate reputation as well as weak finances, Zanussi was seen a high risk customer (Morgan 1993). A clear value of Electrolux was, and still is, to be highly innovative in their goals, hence leading to the assumption that the organization must keep up the speed and continuously develop their products.

5.1.8 Integration

The first result of the acquisition was a reconfiguration of the management of Zanussi. Much of the old board was comprised of people brought in by the original controlling stockholders. Instead Gianmario Rossignolo was appointed chairman due to his experience in working with both Swedish and Italian companies in his former position in Swedish SKF. Carlo Verri was drawn from the same company to fill the position as managing director. It was argued that these people would be able to bridge the differences in culture and management style (Ghoshal & Haspeslagh 1990). It is interesting to note that no manager under top level was replaced. Electrolux kept the organization, and thereby much of the prevailing culture of Zanussi, intact reducing the resistance to change normally associated with an acquisition.

Production was retooled so that components were made on an international scale and the concept of one factory; one product was introduced (Ghoshal & Haspeslagh 1990). Sales and marketing operations were integrated wherever they overlapped. If both Electrolux and Zanussi had a sales and marketing division in a given market, the largest division took over
the smaller one. Also several initiatives were launched in order to save money on production and automate Zanussi’s factories in order to increase productivity (Ghoshal & Haspeslagh 1990).

One problem in particular arose during this integration process. In Zanussi the employees, through their unions, and middle management were very reluctant to have Electrolux take over the company. They feared that after the acquisition was in place most of them would be laid off. The employees’ fears were very well founded as the standard procedure for Zanussi so far had been to acquire companies and restructure these by replacing most of middle management. In doing so Zanussi had created the norm that an acquired company would be restructured harshly. Also the employees were not aware of the decentralized structure Electrolux utilized. Their fear was that most management functions as well as other important functions would be relocated to Sweden and only the production plants kept in Italy. Thus there was a lot of uncertainty associated with the acquisition by “the Vikings from the North” (Ghoshal & Haspeslagh 1990). In order to address these concerns Electrolux invited the Italian union leaders to Sweden in order for them to understand Electrolux’s plan for the merger. This meeting lead to an agreement with the unions that the workforce of Zanussi would be reduced by approximately 4500 over three years (1985-1987). However from early 1986 after some of Zanussi’s plants had been automated the company began hiring new skilled workers. This lead to widespread strikes that were only called off after management had explained that the employees being laid off lacked the skills and training to operate automated equipment. Following the strikes the new management terminated their agreement with the unions and removed the limit on reduction in workforce.

This part of the acquisition may very well be the only major miscalculation by Electrolux. One of the cornerstones in achieving successful change is to communicate the goals of the change clearly. Furthermore it is imperative to reduce the amount of uncertainty that follows any change. By hiring new employees the new management of Zanussi broadcasted mixed signals to the unions, resulting in a momentous loss of credibility. Luckily management was able to reverse the damage by explaining the arguments for new hiring and effectively communicated this by using local media. However in a better planned change process, management would have discussed the problems with the unions before any layoff plans were initiated. An
agreement could have been made either to upgrade the skills of the existing workforce or having the union explain the layoffs and rehiring. Thereby the uncertainty would be reduced to a minimum and a costly strike might have been avoided.

Another problem related to the dissatisfaction of the unions was the reluctance of Zanussi’s middle management to join the effort of integrating with Electrolux (Ghoshal & Haspeslagh 1990). As stated, standard operating practice for an acquisition by Zanussi was to eliminate middle management, making these managers very reluctant to change. However both top and bottom management were very enthusiastic and it was decided that direct communication between front line management and top management was to be established. Thereby the middle line was completely circumvented, effectively making this level superfluous. This had a dramatic effect on the disgruntled middle managers and motivated them to embrace the change more or less voluntarily.

What can be deduced from this part of the case is that an organization is not a single entity but rather a collection of subgroups with their own interests and agendas. As we discussed earlier organizations do not necessarily agree on how M&A activity is conducted and what the results should be. The Zanussi middle management would have been more content to let the company continue with governmental aid rather than be sold off to a foreigner. Electrolux wanted to integrate part of Zanussi and benefit from the vertical integration that made Zanussi unique as well as capitalize on existing sales and distribution activities. In this case the acquirer had more leverage and managed to get the support of the majority of Zanussi, but if the entire management had opposed Electrolux’s take over plans the chances of a successful acquisition would have been significantly reduced.

In order to fully integrate Zanussi into the Electrolux culture the 60 top managers of Zanussi were invited to workshops on management development at the end of 1985 and mid 1986 (Ghoshal & Haspeslagh 1990). To further ensure integration a series of task forces were created. The idea was to let managers from both companies meet and exchange ideas. Finally the Swedish top management visited Italy once every two months and met with Zanussi’s management. The top management meetings were a success and both parties were satisfied with further development of Zanussi as a brand in the Electrolux Corporation. The success of
joint task forces was limited. Some understanding was reached but managers from Zanussi were still on their guard when dealing with their Swedish counterparts. Since Electrolux wanted a close working relationship with Zanussi, a peaceful and voluntary communication between Sweden and Italy was established thus integrating the new employees in Electrolux. Some reluctance from the Italian managers below top level was to be expected as change is more difficult to accept when you do not have any influence on the process. It is our belief that the task forces contributed to successfully integrate the two companies in relatively short order.

The initiatives mentioned above were all introduced to address specific problems with the acquisition. In order to create lasting changes it was necessary for Electrolux to come up with a more general integration mechanism that would be felt throughout Zanussi. Therefore a new set of values were introduced (Ghoshal & Haspeslagh 1990):

1. To be near the customer
2. To accept challenges
3. To deliver total quality
4. With an international perspective

These values were created in order to align the two companies in terms of cultural values.

“We adopted the Swedish work ethic - everybody keeps his word and all information is correct. We committed ourselves to being honest with the local authorities, the trade unions and our customers.”
Gianmario Rossignolo (Ghoshal & Haspeslagh 1990: 907)

Using Olie’s classifications of M&As we find that the acquisition of Zanussi was conducted with an aim for a medium level of cultural integration and a dominance strategy in mind. The culture of Zanussi was largely kept intact although a number of integration projects were conducted. However there was never any doubt about who was the dominant part. Electrolux introduced the change they wanted and Zanussi’s employees were not able to refuse these changes. Therefore we find that the acquisition can be characterized as a mixture of the redesign and absorption types. We also find that the acculturative mode in this acquisition is a
mix between *integration* and *assimilation* as Zanussi’s culture did not change significantly. As such the combination of type of M&A and acculturation meant that the changes introduced by Electrolux were embraced more readily. A thorough reorganization of Zanussi would have destroyed many of the advantages Electrolux saw in acquiring the company and sparked significantly greater resistance.

5.1.9 Aftermath

On April 1st 1986, Electrolux exercised its option and acquired 94.8% of the Zanussi stocks (Electrolux 1986). Afterwards Zanussi was incorporated into the Electrolux group and was reported to be profitable by the end of 1986. However Electrolux was not yet satisfied with the profit. Sales rose approximately 35% from 1985 to 1986 mostly due to the acquisition of Zanussi as well as several other companies. For the same reason the return on equity in Electrolux dropped to 13.3% in 1986. Overall the Electrolux group delivered a satisfactory result after the acquisition of Zanussi and had strengthened its position in the Southern European markets.

In terms of integrating Zanussi into Electrolux we have come to the conclusion that the acquisition was a great success. The two companies did not seem like a very good match in terms of corporate culture. One of the reasons was that Electrolux exhibited signs of a typical Swedish company with a low level of centralization and a flat chain of command. Furthermore Zanussi was dreading the acquisition based on their own experiences with acquiring companies. However the management in Electrolux took steps to counter many of the issues. For the most part these steps proved to be the right way to go as can be seen from the rising profitability of the joint company after the acquisition. Therefore we argue that Electrolux successfully managed the organizational change in order to provide lasting and popular integration between the two companies.

5.1.10 Lessons learned

The success of Electrolux and Zanussi leads us to a number of issues that may provide basis for future mergers. The first issue of any M&A is the strategic fit. If the target company has no value for your organization it does not matter how well the culture and structure lines up. In
this case Electrolux found excess capacity at Zanussi’s component production facilities, as well as a sales and distribution network, both factors that could be utilized to expand the current market. Therefore we conclude that the pre-merger research on Zanussi as a potential acquisition was very successful in terms of strategic fit.

Electrolux managed to conduct a deal without any hidden agendas. The company succeeded in convincing the managers and unions that the merger was in their best interest. Therefore we conclude that being open about goals and motivations for M&As negates many post-merger problems that may arise due to uncertainty. This uncertainty can be reduced further by managing the change process. The initial reluctance of management was reduced significantly by interaction between Italian and Swedish managers. As a final point we see that managing the process continuously is paramount to achieving a successful M&A.
5.2 Case: Merging Daimler-Benz and the Chrysler Corporation

In 1998 Daimler-Benz and the Chrysler Corporation formed a merger to become one of the largest players in the automotive industry. The merger was promoted to be a “merger of equals” meaning that both companies would have equal say in the decision making process with dual CEOs and headquarters would be located in both Stuttgart, Germany and Auburn Hills, Michigan, USA. The new company DaimlerChrysler predicted that the merger would lead to lower costs and higher profitability through increased bargaining power and stronger market penetration. However the merger did not go as planned and in August 2007 the Chrysler division was sold off to the American Cerberus Group for € 5.5 billion. In the following we analyze the merger in order to determine how two profitable companies managed to create negative value by joining forces (Waller 2001).

5.2.1 Introducing Daimler-Benz

Daimler-Benz AG was formed in Germany in 1926 by merging Daimler-Motoren-Gesellschaft and Benz & Cie (Waller 2001: 4). The company’s main products were high end vehicles and racing cars reserved for the elite in Germany and abroad. When the depression hit in 1929, Daimler-Benz lost a substantial part of its sales. This trend was reversed in 1933 when the German government under Adolf Hitler focused its efforts on rebuilding the country’s car industry. In 1939 Daimler-Benz was required to produce material that could aid the war effort and due to shortages in manpower during the war the company made use of forced labor. At the end of the war in 1945 some 80% of Daimler-Benz’s facilities had been destroyed by Allied bombardments (Waller 2001: 13). However many vital parts of the production plants had been buried in bunkers and Daimler-Benz was soon producing cars again. With the aid of the Marshall plan in 1948 and the introduction of the D-mark in 1953 the company managed to reinstall itself as a leading producer of luxury cars and trucks in Europe. The following decades saw continued growth for Daimler-Benz and in 1985 the company reported an EBIT of DM 6 billion (Waller 2001: 17).

In 1989 the optimistic atmosphere surrounding Daimler-Benz evaporated somewhat as the chairman of the supervisory board Alfred Herrhausen was assassinated by left-wing terrorists.
However the strategy of turning the company into an “integrated high-technology company” was followed until Jürgen Schrempp became CEO in 1995 (Waller 2001: 18).

5.2.2 Introducing the Chrysler Corporation

The Chrysler Corporation was founded in 1924 by Walter P. Chrysler, a railroad engineer (Waller 2001: 19). The company continued to grow in spite of the depression and in 1929 the Chrysler Building, the Chrysler Corporation’s new corporate headquarter in New York, was finished. Unlike Daimler-Benz, Chrysler had focused on medium priced cars and the huge middle class in America provided a solid customer base. Walter Chrysler died in 1940 and the following year America entered the war forcing Chrysler to start producing trucks and combat vehicles. Some noticeable products were the M-4 Sherman tank and the Jeep (Waller 2001: 23). In the following years Chrysler began a steady decline as the new chairman K. T. Keller followed a more conservative strategy than his predecessor. Up until 1973 the company’s fortune fluctuated whilst its market share dropped. In 1973 the oil crisis kicked in and Chrysler with its production of large fuel consuming cars was hit hard. The company barely survived but due to its size and importance for the United States the Congress agreed to grant loans in order to keep the company running. Thanks to a redesign of the company strategy as well as new management the company began turning out a profit from 1981 enabling it to repay the government loans ahead of time and continue to prosper (Waller 2001: 30). In 1995 through 1997 Chrysler reported profits of more than €4 billion per year (See figure 5.7).
5.2.3 Strategic motives for merging

“The two companies are a perfect fit of two leaders in their respective markets. Both companies have dedicated and skilled workforces and successful products, but in different markets and different parts of the world. By combining and utilizing each other's strengths, we will have a pre- eminent strategic position in the global marketplace for the benefit of our customer! We will be able to exploit new markets, and we will improve return and value for our shareholders. This is a historic merger that will change the face of the automotive industry. This is much more than a merger, today we are creating the world's leading automotive company for the 21st century. We are combining the two most innovative car companies in the world.”

Jürgen Schrempp, Chairman of the Daimler-Benz Management Board 1995 – 2005
(Blasko, Netter & Sinkey 2000: 78)

The merger was intended to play on the strengths of both companies and provide synergies. Daimler-Benz had a powerful brand but had failed to expand beyond Europe. The company had a 1% market share in the United States and their position as a luxury car maker was threatened by Toyota’s Lexus brand (Blasko et al. 2000). Furthermore the cars produced by Daimler was seen as too expensive to gain significant market shares in the emerging markets where most of the automotive industry’s growth potential was to be found (Badrtalei & Bates 2007). In order to secure the new market Daimler needed a product line that appealed to the broad public.

Chrysler faced another challenge. CEO and Chairman Robert Eaton believed that the automotive industry was plagued by overcapacity equaling six times the production of
Chrysler. Thus he reasoned the number of car makers would shrink significantly in the following years and only the strong would survive. Therefore a partner with a solid background and well established distribution network would be needed (Badrtalei & Bates 2007). Eaton’s concern was founded in the history of Chrysler. During the late 70s Chrysler faced declining sales and the concept “sales banks” was introduced. These banks were essentially large parking lots where unsold cars were placed. Ironically the lots were leased from Ford who prospered in the 1970s (Waller 2001: 24). Finally Chrysler had more or less removed its products from the European market and approximately 95% of sales in 1997 came from the North American market (Blasko et al. 2000).

In short we can conclude that the merger was motivated both by the wish to expand and diversify as well as the need for teaming up to survive the coming restructuring of the industry.

5.2.4 Strategic challenges

Several issues cropped up during negotiations of the merger. These issues were not all resolved which proved to be devastating for the merger in the long run.

First was the much publicized “merger of equals”. This phrase was used several times to assure both German and American stockholders that the merger would not have a dominant part. The Germans would not accept to be dominated by an American firm and ensured that they were the active partner continuously taking initiatives. The Americans were not interested in being acquired and also pushed hard to show that their wishes were of equal importance (Badrtalei & Bates 2007). In order to ensure equality it was agreed to establish dual headquarters in both Germany and the United States with the post of chairman split between Jürgen Schrempp and Robert Eaton. However Eaton agreed that this joint chairmanship would end after three years where he was due to retire (Badrtalei & Bates 2007). As we will see the equality concept was not to last.

There were two other major impediments to a successful merger. Although they may seem trivial the issues were of major importance for Daimler. First was the location of the corporation or more specifically whether the new company should be German or American. Chrysler believed that the company should be located where it made the most sense from an economic point of view (Badrtalei & Bates 2007). However Daimler and Schrempp would
never allow Daimler to be part of an American corporation. After some advanced maneuvering, due in part to German tax laws, stockholders from Chrysler had their Chrysler stocks exchanged for Daimler stocks and the new company was formed (see figure 5.8).

**Figure 5.8: The legal structure of the DaimlerChrysler merger**

![Diagram](source: Blasko, Netter & Sinkey 2000: 92)

The final issue was the naming of the new company. The original merger prospect stipulated that the new entity would be named Chrysler-Daimler-Benz (Waller 2001: 216). However Schrempp argued that he would not be able to present this name to his own board as Daimler-Benz could not be seen giving concessions, however minor, to Chrysler. As a compromise the company was named DaimlerChrysler dropping out the Benz part. As compensation it was agreed that Chrysler would have one extra board member when Schrempp retired bringing the total up to 8 out of 18 places (Badrtalei & Bates 2007).

These issues all seem rather small and irrelevant in a multibillion merger but in hindsight it was clear that the German interest took precedence over American during the entire merger
process. This resulted in several cultural conflicts during the integration phase that ultimately resulted in a destruction rather than creation of value.

5.2.5 National cultural influence

Germany

According to Hofstede’s research (see figure 5.9), equality is an important factor in the German society based on the power distance ranking (PDI) of 35. There is a respect for individuality and individual achievements are rewarded.

![Figure 5.9: Hofstede’s Cultural Value Dimensions for Germany](source: Hofstede & Bond 1988)

This is also seen in the fairly high individualism ranking (IDV) of 67, where the individual needs and wants outweigh the common goals and interests. The masculinity ranking (MAS) of 65 shows that the German society is very ego oriented. Money and material goods are very high on the list of priorities and work is therefore seen as a main concern. Gender equality still has a long way to go and few women are seen in management. The German society is based on structure, rules and regulations. The Germans prefer knowing what lies ahead and strive to achieve control of this, which is seen in the high uncertainty avoidance ranking (UAI) of 66.
Gesteland (2002) characterizes the Germans as being deal-focused as they see no need to develop close personal relationships with their counterparts. The Germans are seen as being quick and efficient, which puts them in the group of monochronic time cultures. This is also seen their attention given to punctuality and adherence to agendas. The Germans are furthermore rather formal in their way of doing business, which is also why there in Germany is a clear separation between professional life and private life. The Germans are relatively reserved and prefer direct communication rather than sugar wrapping the issue at hand. The Germans are known for thorough preparation and expect no less from their counterparts. Despite their quick and efficient nature, they take their time in decisions-making processes due to their hierarchical and formal culture as well as their need for perfection (Gesteland 2002: 312-315).

**United States**

According to Hofstede (see figure 5.10), the American power distance (PDI) ranking of 40 compared to the world average of 55 (Itim International 2008) indicates that there is a greater level of equality in society. This could also be an indicator of fairly flat organizational pyramids and participation of low level employees in decision making.

Hofstede’s research furthermore shows that the United States has the highest level of individualism (IDV) of all the countries examined, which portrays a society with a highly individual and independent attitude. Everyone tends to look after their own interests rather than focusing on the common goals and achievements. For comparison, the world average individualism ranking is 43 (Itim International 2008), whereas the American ranking is 91. Another distinct ranking is the masculinity ranking (MAS) of 62, which indicates a high level of male domination of society and power and where women strive to shift from the female role model to the male role model. The focus is on work life rather than private life and material things are seen as more important than the quality of life.

The Americans have a rather low ranking when it comes to uncertainty avoidance (UAI), which portrays a society which does not rely on rules and regulations in order to control future events as the society is open to change.

The final ranking is the long term orientation (LTO), which shows their emphasis on quick results and focus on the bottom line rather than on building relationships.
According to Gesteland (2002) the Americans can be characterized as being highly deal-focused with their ‘let’s get down to business’-attitude. They are seen as the fastest decision-makers in the world. However when it comes to contracts and agreements they are very detail oriented and stick very closely to these. This goes very well together with the fact that Americans are monochronic in the time management as they favor punctuality and believe that ‘time is money’. The Americans are furthermore very direct in their communication and see no problems in dealing with strangers as they do not regard relationship building as necessary. The society is based on egalitarian values as status distinctions are only acceptable if these are based on individual achievements (Gesteland 2002: 337-341).

Comparison

According to Hofstede’s dimensions Germany and the United States are rather similar. Their fairly low power distance shows that both nations value equality and their high levels of individualism indicates that both cultures pursue individual results and achievements rather than focusing on the common good. Germany and the United States are also both masculine cultures, who focus on the material things in life, such as money and power rather than quality of life. Masculine culture are more keen on taking on extra working hours in order to reach their goals and sacrifice some of their spare time. The Germans and American differ in terms
of uncertainty avoidance. The Americans tend to take things as they come and welcome change, whereas the Germans make rules and regulations in order to avoid surprises. They prefer knowing what lies ahead. Neither Germany nor the United States are long term oriented as they both strive to see quick results and prefer determination.

Gesteland characterized both Germany and the United States as being deal-focused cultures. However where Americans are seen at the fastest decision makers in the world, Germans tend to take their time when it comes to decision-making. This could lead to the Germans regarding the American as being frivolous or careless in their dealings. Both are also monochronic time cultures, which could prove beneficial in dealing as neither part would tend to stall the process unnecessarily as both consider time important.

With the Germans being formal and the Americans being informal there might arise situations where Germans would consider the Americans rude in their address or general manner. This goes very well in hand with the fact that Germans are relatively reserved, whereas the Americans are moderately expressive. However as both cultures prefer direct communication no major issues are to be foreseen.

5.2.6 Organizational structures prior to the merger

Prior to the merger, Daimler-Benz was characterized by pursuing traditional, top-down management practices with a highly conservative approach, which usually proved to be highly efficient and safe (Shelton, Hall & Darling 2003). Daimler-Benz was structured in a very hierarchical and formal manner where decision-making is done intricately. The formal nature was seen in the strict policies concerning dress codes as well as respect for titles and positions (Badrtalei & Bates 2007). Executives at Daimler-Benz were used to large expense accounts, which were also seen in the use of first class flights at all levels. The employees at Daimler-Benz were furthermore used to working late hours (Badrtalei & Bates 2007).

When relating this information to our model for mapping organizational structure, we can determine that Daimler-Benz’ structure can be characterized as resembling Mintzberg’s *machine bureaucracy* or Miles *et al.’s defenders* due to the high level of centralization and formalization, the long decision-making processes as a result of a hierarchical structure, and the overall highly mechanic nature of the organization.
The Chrysler Corporation was known for its rather permissive, open culture, where creativity, diversity and courage were highly cherished (Shelton et al. 2003). The organization was not based on strict hierarchies, but rather focused on cross-functional teams where the discussions were held in an open forum (Badrtalei & Bates 2007). Mid-level executives had broad responsibilities, which also lead to large individual achievement-based salaries and bonuses. This lead to a speedier decision-making process as mid-levels executives were allowed to proceed on their own initiatives without having to wait for approval from top management. It
was expected that employees worked around the clock when facing deadlines, but it was not customary to work late hours in general (Badrtalei & Bates 2007).

Relating this information to our structural model we can conclude that Chrysler’s organizational structure share many similarities with Mintzberg’s *simple structure* and *adhocracy* as well as Miles *et al.*’s *prospectors* due to the responsibility given to mid-level managers leading to a fairly short decision-making process, the flexibility of the organization enabling a high level of innovation, and a rather fluid structure in general resulting in an organic organization.

In a comparison of the two organizational structures on the basis of Mintzberg and Miles *et al.* (figure 5.11) several major dissimilarities appear. The *machine bureaucracy* or *defender* type found in Daimler-Benz based on centralization, formal practices, strict hierarchies and long decision-making processes can be viewed as a strong opposite to Chrysler’s *simple structure*, *adhocracy* or *prospector*, which has its foundation in flexibility, quick decision-making processes and a general organic approach to business. These differences could very well result in severe complications when merging the two organizations. A company like Daimler-Benz with rigid control and hierarchical authority is bound to clash with a structural approach as lenient and flexible as the one found in the Chrysler Corporation. Where Daimler-Benz planned every little detail in advance, Chrysler naturally also planned in a wisely manner, but at a very different level than Daimler. Chrysler was used to quick decision-making as authority was delegated to many levels, whereas Daimler’s top management kept to a strict top-down approach.

### 5.2.7 Corporate cultural characteristics

When analyzing the merger between Daimler-Benz and the Chrysler Corporation, we saw that the organizational culture played a crucial role in characterizing the merger of opposites. Former Chrysler President, Robert Lutz, stated that: “…managing the cultural issues will indeed be the toughest part of making this marriage work.” (St. Jean & Cohen 2000: 3).

The corporate culture in Daimler-Benz was heavily influenced by German national culture as well as the organizational structure described above. The power distance of German culture
spilled over into Daimler’s corporate culture and even though there were few levels of
hierarchy a very formal tone was used in all communication. Evidence of this was seen
through the use of titles on business cards and in communicating even under informal
circumstances. For example the employees who were very proud of their achievements would
address each other with titles such as Dr. or Professor (Waller 2001: 254).

One example of Daimler-Benz’s observable artifacts was its corporate presentations which
consisted of detailed and complex research formally presented with overheads. These
presentations portrayed a value that an organization will only be successful when employees
are organized and the decision making process is structured and done by top management (St.
Jean & Cohen 2000). The German management also liked their formal style and documented
all processes. These documents would be signed by several employees to ensure validity, and
usually approval for any decisions would have to go through the entire bureaucratic machinery
(Waller 2001: 256). The assumption here is that workers are inefficient and perform better
when they are given directions and instructed.

Another artifact is the corporate meetings, travel and accommodation expense policy. Parties
would usually be luxurious with lobster and champagne, all employees would fly first class
flights, and five star hotel accommodations were customary for management. The underlying
value reflects that it is important to project an image of luxury and quality for both employees
and investors, with an assumption that people enjoy luxuries as it helps boost their egos and
confidence (St. Jean & Cohen 2000).

Finally, an observable artifact is seen when looking at the Daimler-Benz model ranges, which
reflects values of constant refinements and benchmarking cutting edge technology (St. Jean &
Cohen 2000). The assumption is that people seek power, performance and elegance.

In contrast, the Chrysler Corporation had a noticeably different culture. Chrysler employees
would be very informal and use each other’s first names (Waller 2001: 256). One artifact is
the style in which they conducted their corporate presentations, which was with open
discussions with little preparation, usually presented using a single 12 point chart (St. Jean &
Cohen 2000). This approach represents a value where the organization empowers individuals
to be innovative, flexible and lean. The lower level managers in the American corporation
were used to making individual decisions and by no means afraid to tell their bosses if they
were wrong. The underlying assumption is that people perform better when their contributions are valued and are given more responsibility.

Another interesting artifact was the corporate meetings, travel and accommodation expense policy. Internal parties are done in an informal manner, with wine and cheese rather than focusing on luxurious details. All employees would fly coach class and stay at Holiday Inns, management included (St. Jean & Cohen 2000). Chrysler’s values stressed cost leadership and signified that the satisfaction of basic needs and comfort were an important attribute when they conducted business. The underlying assumption was that people feel satisfied when their basic needs are taken care off.

Finally, Chrysler’s product range reflected creative styling and product development. The value held was that an organization should provide people with an opportunity, responsibilities and encourage their development with an assumption that people want to stand out, and live in a natural and entrepreneurial environment (St. Jean & Cohen 2000).

After analyzing the underlying assumptions of both Chrysler Corporation and Daimler-Benz, we have observed clear discrepancies between the organizations managerial practices. By observing the inconsistency of interactions, norms, and roles within each company, we observe vast differences between them. The impact of cultural inconsistency within these two companies has been the main constraint for Benz and Chrysler to achieve synergies. Although a Post Merger Integration Team (PMI) was introduced to deal with the discrepancies of the managerial practices and the differences within culture, differences among salaries and potential departure of crucial senior executives led to a dominance of Daimler-Benz culture over Chrysler, shadowing lower management with new, and complex managerial practices that constrained Chrysler’s innovation and pioneering designs (St. Jean & Cohen 2000).

5.2.8 Integration

During the post merger integration process several issues came up. Some were to be expected and could have been dealt with earlier. An example was the executive compensation. As mentioned the American executives were used to having a decent size base salary as well as a bonus linked to the overall performance of the company (Badrtalei & Bates 2007, Waller 2001: 255). In order to alleviate this problem a pay-harmonization program was initiated
giving the German executives bonuses based on performance, but there was a fundamental cultural flaw in this plan. According to Waller (2001: 255) the Germans were not motivated by money the same way the Americans were. The goal of a German executive was rather to command and control inside the company. Thus where an American would expect financial gains to be associated with high performance a German would expect to be rewarded with influence and status.

It seemed that in terms of structuring the organizations, this would be the optimal merger opportunity for both organizations. By separating the two to such a degree, potential differences and difficulties could perhaps be avoided. However, not everyone shared this opinion.

“Unless Daimler imposes its culture on the new company and takes complete charge, don’t be surprised if the deal fails.” – Jeffrey E. Garten, Dean of Yale School of Management (Garten 1998, p.20).

Several Chrysler key executives left the organization prior to the merger as well as during the first months of the merger, either opting for early retirement or joining competitive manufacturers (Shelton et al. 2003). This exit of several key employees were to some extent expected, but as co-chairman at that time, Robert Eaton, stated: “While departures of executives is normal after a merger, the differences in culture and compensation from the two international partners may have exacerbated departures after this merger.” (Blasko et al. 2000: 98). Robert Eaton himself retired earlier than planned following the first quarter of 2000 stating that “the two companies are one; my goal has been accomplished. ... This is the right time for me to go.” (Meredith 2000: 1) and thereby left Jürgen Schrempp in sole control of DaimlerChrysler (Shelton et al. 2003). Over a period of 19 months two consecutive presidents of Chrysler USA were fired. Thomas Stallkamp entered the position as president on January 1, 1998 only to be forced to resign twelve months later. James P. Holden took over from Stallkamp but due to bad performance in 2000 he was fired after only 7 months in the position (Dutta 2003, CBS.MarketWatch 2000). The new CEO came to be Dieter Zetsche, a Daimler executive and close confident of Jürgen Schrempp. Hereafter several Daimler executives moved in on Chrysler, thereby taking charge of all major decisions and development initiatives (Shelton et al. 2003, Badrtalei & Bates 2007, CBS.MarketWatch 2000). This was
the beginning of Daimler taking over Chrysler instead of merging. At this point there was no Chrysler presence on the DaimlerChrysler supervisory board or the board of management (Dutta 2003). Jürgen Schrempp now openly acknowledged that he never had intended the merger to be one of equals. He even went on to state that “if Daimler-Benz’s real intentions were publicly known before the merger, there would have been no deal.” (Dutta 2003: 5). He later retracted this statement adding that if it had been the purpose to exclude Chrysler they would never had included Chrysler in the name of the new organization (Dutta 2003). Dieter Zetsche drastically changed the pace for Chrysler by announcing ambitious restructuring plans which imposed several cost cutting measures including layoffs and production cutbacks (Shelton et al. 2003).

Initially the arrangement started as a merger in Olie’s matrix. Integration between Daimler and Chrysler was supposed to be high and the deal was focused on cooperation between equals. If the merger had continued as first announced integration would have been the acculturative mode used as both companies valued their own culture but saw benefits in the partner’s culture. As the merger progressed into an acquisition the merger strategy turned into absorption where Chrysler would have to adhere to German standards rather than retain its own culture. This in turn made Chrysler reluctant to work with Daimler and unwilling to give up their culture. Thus we conclude that the acculturative mode in Chrysler was resistance.

### 5.2.9 Aftermath

The results of the merger were disappointing to say the least. The merger of equals had become an outright acquisition and Chrysler was relegated to a division of DaimlerChrysler rather than a full partner. This had several adverse consequences for the company. First was the resignation or firing of key executives in Chrysler. During restructuring programs and reorganizations many of the Americans on the management board were replaced by Germans (Bardtalei & Bates 2007). Executives and designers were defecting to competitors and Ford as well as General Motors welcomed these employees as valuable assets. Furthermore the company had lost significant value with share prices down from € 96.06 in 1998 to € 61.41 in 2006 (DaimlerChrysler 2006) (figure 5.12).
As mentioned, in 2005 Jürgen Schrempp resigned from his post as chairman of DaimlerChrysler to be relieved by Dieter Zetsche, the former head of the Chrysler division. Robert Eaton had predicted that the next chairman of DaimlerChrysler would be from the Chrysler part of the company but it is doubtful that he expected that person to be a German manager who had taken over the American operation (Waller 2001: 263).

Finally in 2007 the two companies split again. Chrysler was taken over by The Cerberus Group, an American asset management company, for € 5.5 billion. In a speech on May 14th 2007 Dieter Zetsche announced that all synergies between the two companies had been realized and since the companies operated in entirely separate segments it was no longer viable to retain Chrysler as part of DaimlerChrysler (Zetsche 2007). In October 2007 the company was renamed Daimler AG and continues to produce the classical brands such as Mercedes-Benz (Daimler AG 2008). The future of Chrysler is more uncertain. With sales dropping due to the recent financial crisis there were talks of consolidating the auto maker market by merging Chrysler and General Motors (Healey 2008). However these talks were cut short due to the recent financial crisis that has stripped GM of liquidity (Børsen 2008).

2 Share prices 1995 – 1997 are based on Daimler-Benz AG and have been converted from D-mark to € using the exchange rate 1,956DM/1€ (Daimler-Benz AG annual report 1997)
5.2.10 Lessons learned

There are several important lessons that can be derived from the DaimlerChrysler merger. Some of the decisions regarding the merger were very well executed. At the early stages of the negotiations an effort was made to build trust between the two companies. Several potential disastrous issues such as the division of management power were resolved. Also the speed of the merger was much higher than it was normally seen (Waller 2001: 283). Some of the synergies were realized for example by letting Chrysler brands utilize some of the excess capacity of Daimler’s production facilities and vice versa.

On the other hand there were unfortunate mistakes and oversights that combined to destroy the benefits of the merger. First of all a proper due diligence process should have been conducted in order to ascertain whether Chrysler was a viable partner. In this case Daimler-Benz looked at the numbers and decided that a merger, or rather an acquisition, was desirable (Ostle 2001). As it turned out the approach to joining the two companies were characterized by dishonest dealings and power plays by the German management. Focus was removed from any existing cultural barriers which lead to a number of misunderstandings during the merger and integration stages.

One of the points that were made repeatedly before the merger was that the two companies produced complementary goods. The theory was that the merger would result in a more diversified product portfolio thus increasing market presence and penetration. This assessment turned out to be incorrect. Several of the Chrysler brands overlapped Daimler-Benz such as the truck segment (Ostle 2001). Thereby the new company was competing with itself in various markets resulting in loss of value. As such we conclude that there was no strategic motivation to justify a merger of this scale.

As we have seen the structural and cultural setup of Daimler-Benz and Chrysler were not a very good match from the beginning. At the most basic levels there were significant differences that lead to conflict throughout the new organization. In order to have prevented such conflicts we find that Daimler-Benz should have used a different approach to the merger. Basically the entire merger was made on false premises. If Daimler-Benz had been honest from the beginning regarding their motives the process could have continued in an atmosphere of trust. There might have been stronger resistance to the deal initially, but in the long run the strategy utilized resulted in a number of problems that could have been averted.
5.3 Important aspects of international mergers and acquisitions

From the analysis of the two previous cases as well as the theory reviewed we can derive a number of lessons or points that must all be considered before entering into international mergers and acquisitions. It is our intent to draw upon these lessons in order to present our recommendations for international M&As. These recommendations will be put to use in our final case analysis, thereby pointing out some of the potential pitfalls that can be avoided.

The first lesson is to investigate the strategic motivations thoroughly before engaging in any kind of M&A activity. The strategic fit constitutes the basis for an M&A and if there is no sound strategic foundation it does not matter how well the companies line up in terms of culture, structure and financial terms. As we have shown there are a number of motivations for entering into M&As but these motivations must be seen as achievable goals in order for a company to go ahead with the process. The DaimlerChrysler case serves to illustrate this point clearly. Daimler-Benz was certain that Chrysler was a viable partner with a solid profit and complementary products. This turned out to be a mistake.

In relation to the strategic fit is the financial fit. Although we have not examined the financials of any M&As in detail it is evident that if there is adverse financial consequences related to a deal it should be canceled. A rather obvious lesson is to conduct a simple cost-benefit analysis to ensure the feasibility of an M&A. Companies engaging in M&As spend vast amounts of money on analyzing potential targets in a financial context so this point should come as no surprise.

With the financial and strategic motives lined up the next important part of an M&A is the aspiration level. More specifically a company should consider what it expects from collaborating with another company. We have identified four scenarios for M&As ranging from having no more than official ownership of a company to full assimilation of another company’s activities. In the Electrolux-Zanussi case much of Zanussi was left intact. This strategy turned out to be quite successful. On the other hand a somewhat unclear strategy was chosen in the DaimlerChrysler example. What started out as a merger became an acquisition which resulted in problems throughout the post-merger stages.
These lessons are general observations that should be considered in any M&A. However we are interested in expanding the awareness of cultural and structural issues in M&As. Therefore we have drawn upon theory and empirical evidence to suggest more specific points of interest regarding the corporate culture of the parties involved.

National culture is a factor we have analyzed in relation to corporate culture. We have found that national culture has an influence on the organization on all levels. This influence does not have to be directly observable but rather has an impact on the mindset and values of all employees. In relation to international M&As there is bound to be differences between countries and regions. It is often seen that one company lacks an understanding of the new national culture they deal with. We suggest that when engaging in M&A activity across borders, national culture should be analyzed carefully to avoid misunderstandings. In a world where globalization is erasing many cultural differences it may seem of little importance as the stereotypes suggested by theorists disappear. However a lack of cultural understanding is often interpreted as lack of respect as many cultures try to preserve their unique cultural identities. This may result in additional and unnecessary barriers to a successful M&A. Our best advice is to get a feel for the local culture before beginning negotiations either by direct contact with locals or by secondary sources such as experiences by others.

The organizational structural setup of a company has a significant impact on the corporate culture and thereby the integration potential. Through the use of several schools of theory we have suggested a number of characteristics for organizational structure. From the analysis we have concluded that certain types of structures are better suited to cooperate initially. From the evidence we have collected it seems that the structural similarity of two companies will aid the merger process. However it is not impossible for two companies from the opposite ends of the structural specter to conduct a successful merger.

The final lesson we can take from the analysis concerns the corporate culture of both companies involved in a merger. Along with organizational structure we use the values and assumptions of companies to define the culture found. Prior to any deal it is important to analyze the culture of any potential target as well as to have an understanding of your own culture. Thereby initial discrepancies can be identified and measures taken to align the values of the two companies before the differences evolve into conflicts and counterproductive behavior.
5.4 Case: MAN Diesel acquiring Metalock

In August 2008 the Augsburg, Germany, based MAN Diesel acquired Copenhagen-based Metalock Denmark A/S. The acquisition was a complete take over, which was to continue MAN Diesel’s strategy of paving the way for organic growth (MAN Diesel 2008a).

In this case study we will mainly look at the agreement from the view of the acquired company, Metalock. We have chosen this strategy in order to determine what influence the acquisition has on the employees in Metalock as we find that they will feel the effects of the acquisition the most. This move will have little structural and cultural impact on MAN Diesel and therefore the changes introduced through the acquisition will solely be seen in Metalock.

Due to this focus our data on MAN Diesel is derived from written documentation, whereas our knowledge of Metalock has been collected from both written documentation as well interviews with key executives involved in the acquisition process. Our previous case studies have enabled us to extract experiences that might guide us in the direction of dos and don’ts when two organizations are combined.

5.4.1 Introducing MAN Diesel

MAN Diesel is a division of the MAN Group. The MAN Group originates from the former Maschinenfabrik Augsburg-Nürnberg and Gutheoffnungshütte Actienverein, which again originated from the St. Antony iron and steel works established in the Ruhr district in 1758. Hence, the MAN Group is celebrating its 250th year in business. With production sites in Europe and Asia, MAN Diesel manufactures trucks, buses, ship engines and turbines and supplies most of the world. Today MAN Group is one of Europe’s primary industrial players in the sector of Transport-Related Engineering, with sales of approximately € 15.5 billion in 2007. MAN Group employs a workforce of around 55,000 worldwide (MAN AG 2008a).

MAN Diesel has from the beginning played a major role in the development of new technologies (MAN AG 2007a). Among other things, MAN Group is behind the construction of Germany’s first steel bridges, the first German Rhine steamship, and the Wuppertal suspension railway. The company furthermore built Carl von Linde’s first refrigerators, as well as developed, constructed and built the Diesel engine together with inventor Rudolf Diesel (MAN AG 2007a).
MAN Group has been known for its many changes in terms of mergers, acquisitions and restructurings. It was not until 1986 that the company became an organization of independently operating, contractually linked divisions. There are four divisions, namely MAN Nutzfahrzeuge, MAN Diesel, MAN Turbo, and MAN Ferrostaal. We are aware that Metalock is to become a division under MAN Diesel, but due to a strong common culture in the MAN Group we find that most of the values of MAN Diesel are identical to the MAN Group.

MAN Group’s strategy is to achieve sustainable value enhancements in its core areas. The management concept is based on industrial governance, which they pursue through centralizing the strategic management of the business, whereas the operative responsibility is supported (MAN AG 2007a).

5.4.2 Introducing Metalock

The original Metalock A/S was owned by Swedish Gränges, a subdivision of Electrolux. In the 1980s Metalock A/S was sold to a Saudi businessman who owned several shipping companies and a number of transport ships (Christensen 2008). In 2000 Metalock Denmark (hereafter Metalock) was split off from Metalock A/S and bought by Kenneth Christensen who was at that time head of Metalock A/S’ Nordic operations (Christensen 2008). The company specializes in repairing axles and crankshafts mainly found in large engines such as those onboard cargo ships and oil tankers as well as in windmills by using the so called Metalock welding, a highly specialized process of repairing damages to cast iron (Metalock Denmark 2008a).

In 1999 Metalock became an approved supplier of “On-Site Machining”, by MAN Diesel (Metalock Denmark 2008a). This meant that MAN recommended Metalock for repairs of its products thus strengthening the relationship between the two companies. At the time of the acquisition approximately 50% of Metalock Denmark’s business was with MAN Diesel (Bonde 2008).

The company employed 23 engineers who were on call for reparations around the world. Whenever a ship engine fails the owner contacts Metalock who then sends out one or two engineers to repair the engine. The ship in question may be anchored anywhere in the world.
meaning that Metalock’s employees are almost always travelling. Repairs normally take from 6 to 14 days and speed is of the essence as it can cost the shipping companies up to € 75,000 per day to have a ship sitting in port (Christensen 2008)

5.4.3 Strategic motives for the acquisition

MAN elected to acquire Metalock in order to continue MAN’s strategy of “propelling its own organic growth ... by acquiring smaller, highly profitable companies.” (MAN Diesel 2008a). Metalock provides after sales services to MAN’s products and therefore the acquisition of a highly related company was desirable. By acquiring Metalock MAN has strengthened its position as a whole service provider and vertically integrated a supplier of such a service. Due to their strategy MAN had a choice of either acquiring Metalock or build up their own service company in order to fulfill the same needs of their customers. Buying an existing company ensures that the customer base is retained and that the same level of quality can be maintained. Furthermore removing a potential competitor by integrating it reduces the number of after sales service providers thus increasing profits for MAN (MAN Diesel 2008a, Bonde 2008, Christensen 2008).

From Metalock’s point of view there really was no maneuvering room. Half of the company’s business came from MAN and refusing the offer could have meant a withdrawal of the approved supplier designation. Also it was believed that MAN would have created a competing company and recruited some of the talent from Metalock thus creating significant problems for the company (Christensen 2008).

5.4.4 Strategic challenges

One of the major challenges posed by this acquisition is the further development of Metalock. The primary market of Metalock is in major transport ships and therefore the market is somewhat limited. Metalock and its competitors provide a very homogeneous service and the partnership with MAN will ensure a certain amount of business (Christensen 2008). However ships using other brands of engines may be unwilling to utilize the services provided by a competing company.
The acquisition will follow a portfolio strategy with focus on integration as mode of acculturation as described in section 3.1. In other words MAN has decided to retain Metalock as a separate business unit and imposed minimal changes in the company (Bonde 2008, Christensen 2008). This business unit formally will be a subdivision of MAN PrimeServ Center in Hamburg, a company under MAN. However we believe that this strategy is unfeasible in the long run. As we will examine the structural and cultural setup of the two companies are very diverse and in order to operate successfully alongside each other we must assume that some changes will be made in order to align Metalock with the remaining corporation. MAN will have to ensure that their new subsidiary is placed firmly under their control and at the same time retain the flexibility and high quality that are Metalock’s trademarks.

5.4.5 National Culture Influence

Germany
As mentioned previously, the main characteristics of the German culture according to Hofstede is the importance of equality and the respect for individuality and initiative. Germany is furthermore characterized as being a highly masculine country, indicating a very ego oriented society with emphasis on material goods which are to be obtained through dedication to work. In addition to this, the German society is based on structure, rules and regulations as they prefer to know what is common and how to control this.

Also, as mentioned in the DaimlerChrysler case, Gesteland (2002) characterizes the Germans as being deal-focused as they see no need in developing close personal relationships with their counterparts. The German culture is monochronic in their time management as they focus on being quick and efficient and they give great attention to punctuality and adherence to agendas. The Germans have a rather formal approach to business which is seen in their clear separation between professional life and private life. However as quick and efficient as they may be, they take their time in decisions-making processes due to their hierarchical and formal culture.
Denmark

According to Hofstede’s dimensions the Danish culture can be characterized as being highly focused on equality, which is seen in the very low power distance index (PDI) of 18 compared to the European average of 40 (Itim International 2008). There is no set hierarchy in society, which is to minimize inequality as much as possible. In business this is seen in short organizational pyramids and a narrow salary range from top to bottom. It is furthermore visible in the interaction between management and subordinates, as it is common that lower level employees are included in many decisions.

The very high individualism ranking (IDV) of 74 shows a tendency on individuals focusing on their own personal needs rather than looking at the common good. Individual achievements are cherished and private life is kept separate from professional life.

The low masculinity index (MAS) of 16, compared to the European average of 52 (Itim International 2008), portrays a highly feminine culture, which focuses on the quality of life rather than on material gains. Work is seen as a tool to operate your life, rather than the purpose of life itself. The Danes often prefer fewer working hours over monetary compensation.

The very low uncertainty avoidance index (UAI) of 23, compared the European average of 69 (Itim International 2008), shows a tolerance for diversity and openness to change and
innovation. Fewer rules and regulations are needed in order to control the future as the Danes in general are not afraid of a little ambiguity in life.

According to Gesteland (2002) the Danish culture is deal-focused, however not as deal-focused as the Germans (Gesteland 2002: 289). This means that the Danes avoid too much small talk and prefer getting straight to business. Denmark is a rigid time culture meaning that they do not appreciate wasting time. They expect meetings to start on time and they do not welcome interruptions (Gesteland 2002: 290). The Danes are highly egalitarian in nature, which make them rather informal. They are usually on first name basis no matter their position in the hierarchy. This can be connected the ‘Law of Jante’, which is an old-fashioned code of conduct that preaches egalitarianism stating that no one should consider himself better than someone else (Gesteland 2002: 290). Connected to this is the fact that Danes are relatively reserved, which is based on modesty and arm’s length distance. However, it should be noted that this modesty level is not as pronounced anymore due to the influence of globalization and the need for competitiveness across borders.

**Comparison**

From a general point of view it would be possible to conclude that Germans and Danish are like-minded and should encounter no major difficulties when facing each other. However, despite shared characteristics in terms of egalitarianism and individualistic nature, as well the monochronic time management and relatively reserved approaches, it is important to note the clear cultural differences. When diving below the surface several issues arise. If studying the masculinity indices, obvious differences are seen. Where the Germans’ masculine nature shows rather hard and material attitudes, the Danes’ feminine values portray a stronger focus on maintaining a solid private life rather than having the professional life overlap. Another sharp divergence is seen in the uncertainty avoidance indices, which shows that where the German prefer rules and regulations in order to control future happenings, the Danes are more laid back and welcome change and what that may bring.
5.4.6 Organizational structures prior to the acquisition

MAN is divided into several separate production areas: Marine Low Speed, Marine Medium Speed, Power Plants, Turbocharger, After Sales and Production, with common support functions such as accounting and marketing. Each unit produces different types of diesel engines or supports the production through after sales service (MAN Diesel 2008b). Each division has subcontractors and suppliers affiliated to some degree. In general MAN is highly hierarchical with decisions being made by the top executives and very little initiative given to the lower ranking managers (Bonde 2008). This also results in a centralized control of the company with a long decision time. Due to the company setup and general German national culture a high degree of formality is observed within MAN. However MAN operates in an environment where a high degree of innovation is necessary in order to develop new and more cost effective engines (MAN Diesel 2007). Assembling the giant engines requires specialized workers but the basics of all engines are identical. Therefore we find that the work when not working in R&D is rather standardized. MAN is a relatively flexible company where innovation is welcome and workers are ready to accept new ways of doing things. All in all MAN is a mechanic organization but retains the ability to adapt to new situations (MAN Diesel 2007).

If compared to our model of structural types (Figure 4.7) we believe that MAN exhibits tendencies towards both the machine bureaucracy and the divisionalized form. However neither of these structures fit perfectly as MAN has a higher level of innovation and flexibility than is normally found in such structural setups.

Metalock is a fairly small company with approximately 25 employees, a small administrative staff and few managers (Metalock Denmark 2008b). The organization consists of a total of three layers: management, foremen and engineers giving Metalock a flat structure with short decision making time and decentralization of power (Bonde 2008). Metalock appears to be a fluid organization with little formalization and a flexible approach to tasks as new tools are constantly being developed (Christensen 2008). The assignments of the engineers, when called out, are fairly standardized and the level of innovation is moderate as there are rarely any major changes in the products to which Metalock provides service (Bonde 2008, Christensen 2008).
Metalock is comparable to *prospectors, simple structure* and *adocracy* in our structural model. Neither of these types fit perfectly with Metalock as the level of standardization and innovation is not as high as the archetypes in the company.

**Figure 5.14: The organizational structural determinants of MAN and Metalock**

<table>
<thead>
<tr>
<th>Centralization</th>
<th>Formalization</th>
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<tbody>
<tr>
<td>High</td>
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<tr>
<td>Much</td>
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<th>Stability vs. Flexibility</th>
<th>Decision-making</th>
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<tr>
<td>Stable</td>
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<td>Long</td>
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<table>
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<tr>
<th>Level of innovation</th>
<th>Standardization</th>
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<tr>
<td>Low</td>
<td>High</td>
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<td>High</td>
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<table>
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<tr>
<th>Hierarchical vs. Fluid</th>
<th>Mechanic vs. Organic</th>
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<tbody>
<tr>
<td>Hierarchy</td>
<td>Fluid</td>
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<td>Mechanic</td>
<td>Organic</td>
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On the basis of Mintzberg and Miles et al.’s structural types a comparison of the organizational structures portrays the organizations with some similarities, but certainly also dissimilarities. The MAN Group’s machine bureaucracy or divisionalized form based on
centralized control and hierarchy leading to long decision-making processes contrasts Metalock’s prospector, simple structure or adhocracy based on short decision-making process as a result of decentralization and few organizational levels, as well as a highly informal approach to business. It should be mentioned that despite these rigid characterizations MAN and Metalock resemble each other in terms of their high levels of innovation and their flexibility necessary in their fields of business. Whether these differences will prove to be an obstacle depends on the future for Metalock, meaning whether Metalock will be kept as a separate unit or if will be fully integrated into MAN in the long run. If kept separate no major complications will appear since only few of MAN’s characteristics will be imposed on Metalock. Naturally, issues will arise in terms of intensified reporting methods as well as stricter control in general. However Kenneth Christensen was told not to reduce spending in relation to development, which implies that Metalock’s freedom of action will not be limited in this area.

If Metalock is to be fully integrated at some point, this level of conflict will also depend on whether they will be integrated with the service unit situated in Hamburg, Germany, or if they are to be under MAN Diesel in Copenhagen, Denmark. If incorporated under MAN Diesel Denmark it is important to mention that this division up until 1980 was the Danish company B&W Diesel A/S (Man Diesel 2008c) meaning that Danish national culture might very well have significant influence on this division, hence easing the integration process.

If integrated into the overall after sales service division, MAN Diesel PrimeServ Hamburg, Metalock may experience several structural complications. Though a separate division, it is run in the bureaucratic way of the machine bureaucracy. Where Metalock employees are used to taking initiative and responsibility, MAN is much more centralized, hence potentially restraining the processes of the individual, which could also lead to a decrease in the innovation level as development would require much more reporting and approval from top management, or at least division management.

### 5.4.7 Corporate cultural characteristics

The MAN Group is highly focused on its history, dating back 250 years. In order to cope with economic, technological and social challenges, the MAN Group has continuously renewed its innovative capacity and acquired high entrepreneurial competence (MAN AG 2007a).
The corporate culture of MAN is greatly influenced by German national culture, as well the organizational structure mentioned in the previous section. MAN relies on a centralized management system founded on strategy and structure, leadership supply and performance controlling. The strategic objectives which this management system is to reach are (MAN AG 2007a):

- Profitable growth through expansion in growth markets worldwide
- Sustained performance in the interest of customers, investors, employees and society

The MAN Group states their corporate values to be: reliability, innovation, dynamic strength and openness. MAN considers these values to be imperative if the company wants to ensure long-term success (MAN AG 2007a). The reliability value is based on a wish to fulfill expectations and keep promises to all stakeholders. The innovation value means creating new solutions by approaching problems with fresh, creative and competent thinking. The dynamic strength is the recognition of potential, as well as acting flexible and solution-oriented. Finally the openness is based on close cooperation within the group as MAN sees exchange of ideas and information as important (MAN AG 2008b).

The reliability value is seen in the observable artifact of MAN being highly detail oriented. As can be seen in the company’s code of conduct, correct reporting is a key issue (MAN AG 2008c). Generally viewed, this is also a very German trait, as they tend to be rather formal and hierarchical. As mentioned by Kim Bonde (see appendix 1), the Germans did not have a high level of freedom of action during the negotiations with Metalock as they needed to follow the chain of command. The negotiations were furthermore based on a standard contract in order to ensure that the agreement would be entered into in the usual MAN manner. This meticulous value portrays an underlying assumption that sticking with the known is better than exploring new opportunities, at least when it comes to administrative tasks such as contract agreements. It furthermore leads to the assumption that seniority or placement in the hierarchy is key to optimal decision-making, leading to strict understandings of not to act without consultation and approval.
MAN’s values of innovation and dynamic strength are seen in the motto of the MAN Group: “Engineering the Future”. This motto characterizes the company in its 250-year history, which among several major innovative products included the first diesel engine. The company continuously works hard to satisfy the demands of their customers through open and intensive dialogues (MAN AG 2008d). These values lead to the assumptions of the company believing in innovation being the key to sustainable growth and success.

The value of transparency and openness is seen in MAN’s dedication to corporate governance. The company follows all the recommendations of German Corporate Governance Code (MAN AG 2007b). Ensuring compliance is done through the company’s management concept of Industrial Governance, which entails centralization of the strategic management (MAN AG 2007a). This value leads to an assumption that the members of the organization believe that sustained success is only achievable through responsible openness towards all stakeholders.

Metalock is a relatively small company and has little in the way of formal values or codes of conduct. Much of the company’s value set comes through its founder Kenneth Christensen meaning that many of his values are identical to the company’s. Mr. Christensen seems to be genuinely interested in providing a high quality service in a timely manner which has aided Metalock in its work.

From the analysis we conclude that Metalock has few levels of command and that each employee has a significant amount of authority. This corresponds well with the high focus on individuality found in Danish culture. Furthermore, the service provided by Metalock creates a need for speed, precision and flexibility in order to handle a diverse range of problems. Metalock has to adapt to new procedures after the acquisition which has resulted in a larger amount of reporting to the new administration as well as more bureaucracy in regards to accounting (Bonde 2008, Christensen 2008). From this we can deduce that the level of documentation and thereby formality was relatively low prior to the acquisition.

From these observations we conclude that Metalock adheres to several values. The value of flexibility is a key component in Metalock’s success so far and in order to continue to perform well, the company must retain this cultural trait. This value is portrayed in the artifact of
promising quick action to client inquiries as well as producing customized tools in the
dworkshop. This leads to an assumption that Metalock must at all times be able to meet
customer needs. Based on the observable artifact of Metalock employing a number of highly
skilled, well-trained engineers, high quality is an important value of Metalock, as the market is
limited and mistakes can cost tremendous amounts of business. This value leads to the
assumption of quality work being the only sustainable way to success. Another value closely
connected to this is the value of reliability, which is seen in the observable artifact of
Metalock being an approved supplier of on-site machining by MAN Group. This leads to an
assumption of proving your worth is what is important rather than merely creating an image
based on fancy advertising tricks.
The finale value we have identified is empowerment seen in the observable artifact of
Metalock organizing the company through a very fluid structure, hence dividing authority on
all levels and eliminating the need for top management approval. This portrays an underlying
assumption of believing that based on the selection of suitable employees; these are able to
make rational decisions based on their training.

5.4.8 Integration
So far there has been little change brought about by the acquisition. Metalock’s structure and
culture is significantly different from MAN, however this should be of minimal importance if
there is to be no further reconfiguration of Metalock. MAN appears to be conducting a
portfolio type of acquisition where the acquired company is kept in its original form and no
major changes induced. The acquisition has been relatively painless so far. A new CEO, Niels
H. Nøjgaard, has been brought in from MAN’s Copenhagen based division, whilst former
CEO and majority stock owner, Kenneth Christensen, has been given the post of sales and
marketing director. The deal stipulates that Christensen must stay with the company until the
end of July 2010 in order to receive full payment for his shares. This seems to agree with
Christensen as he has expressed some interest in retiring in the near future (Christensen 2008).
The only change evident from our interviews was the reconfiguration of the accounting and
budgeting routines that were implemented. Metalock now has to send its revenue directly to
MAN’s accounts and expenses has to be approved by the German executives in Hamburg
(Bonde 2008, Nøjgaard 2008).
There may very well be smaller conflicts in regards to the new reporting systems and leadership introduced by MAN. By choosing a Danish manager rather than a German many of these conflicts can be minimized since many of the values found in Metalock are cultural traits inherent in Danes.

The acquisition of Metalock can best be described as a portfolio type in Olie’s matrix. Integration is low and so far there is cooperation between the two companies. This results in integration being used as the acculturative mode. However if the acquisition develops as we predict we believe, Metalock will be fully absorbed into MAN Diesel and possibly relocated. In terms of acculturation we believe that Metalock’s culture will be assimilated over time. It is possible that Metalock’s employees value their culture enough to resist the changes, but we believe that the high level of flexibility demonstrated by the company will allow it to integrate successfully with MAN Diesel.

5.4.9 Potential results

From what we have discussed in this case it can be assumed that the acquisition process should be smooth since the level of integration is relatively low. With the backing of one of the largest engine manufacturers in the world, Metalock has the opportunity to develop and grow whilst retaining the flexibility that has brought the company success so far. However we do not necessarily believe that Metalock will be maintained as an independent business unit in the future. Our reason for this assumption is twofold. First is the historic evidence. MAN has a long history of acquiring companies and thereafter integrating them into the main company. As an example S.E.M.T. Pielstick, a French engine manufacturer, was acquired in December 2006. Although the engines produced still carries the same name, the company is now integrated under the name of MAN Diesel SA (S.E.M.T. Pielstick 2008). Secondly is our own evaluation of the feasibility of keeping Metalock as a separate company. The structural and cultural differences we have identified so far will in our opinion result in a number of conflicts. Therefore we argue that Metalock will be integrated in MAN PrimeServ or the Copenhagen based division at some point in the future. Metalock could be kept as a separate business unit under a new name, but we believe that the company is too small and easy to move to warrant a separate division.
Metalock’s strengths lie in its flexibility and skills of the employees. The employees are rarely at the physical location of Metalock in Ishøj, which means that the location of the company is of little importance. If MAN decided to move the company to Hamburg instead it would be able to exert closer control with Metalock whilst retaining flexibility. Furthermore, as soon as a number of German engineers have attained the same competencies as Metalock’s there is little value in keeping the company separate. Metalock has a strong brand but customers can be informed that Metalock is being integrated into MAN and that the services provided will be exactly the same. Therefore we argue that in the near future a major reorganization of Metalock will occur.

5.4.10 Managing the acquisition

From what we have analyzed we find that Metalock is currently in the movement stages of Lewin’s model of change. The unfreezing was begun as soon as MAN Diesel and Metalock agreed on the acquisition. By implementing new procedures in relation to reporting and accounting principles the movement phase is under way. As described the level of acculturation is low at this point and therefore the resistance to change should be minimal. The refreezing phase that should follow happens when MAN Diesel is satisfied with the changes they have induced in Metalock. As we are unaware of the future plans of MAN Diesel we cannot say when this refreezing will take place. The stages of Lewin’s model are static and in order to further analyze the changes we use Beer & Nohria’s model of change as described in table 4.9.

The changes follow a mix of the E and O strategies. This mix should not be confused with a combination of the two strategies as suggested in the model. Instead MAN Diesel has used the O strategy in wanting to develop Metalock and emphasized learning and participation rather than put focus on value generation. Thus the goals and leadership dimensions uses organizational learning as a strategy for implementing change. However MAN Diesel has put an increased focus on structure and planning through tight financial control with Metalock. Furthermore, as a subdivision of MAN PrimeServ Metalock now has significantly increased the number of hierarchical levels. Finally, MAN Diesel has offered the employees of Metalock a retention bonus meaning that financial incentives can be seen as a prime motivation for
working in the organization (Christensen 2008). These three dimensions follow the E strategy. In conclusion we find that MAN Diesel has chosen an unfortunate mix of strategies in the long runs as the change does not have a clear focus. So far no problems have occurred but we find that change will be better welcomed if the focus is communicated clearly.

Based on what we have analyzed, we find that Metalock will experience some changes in the following years depending on what the future aspirations of MAN Diesel are. Even though change management has been quite successful so far, we find that some of the approaches MAN Diesel has been using require some redesign. With the work of Beer & Nohria (2000) in mind we suggest that MAN Diesel uses the combined approach of the E and O strategy in order to manage change better. First MAN Diesel should ensure that Metalock is a profitable business unit and go about reorganizing the company to mold it into the structure MAN Diesel prefers. This step follows the E strategy. Afterwards implementing an O strategy by encouraging creativity and building of a strong corporate culture should prove easier. This move may be seen as harsh and quite possibly some employees will be lost during the transition period, either voluntary or forced. However the ‘survivors’ should be better aligned with the culture of MAN Diesel and much easier to integrate into the main company.

If the acquisition of Metalock continues to develop at the same pace we do not expect that it will significantly affect the structure or values of MAN Diesel as the company is merely adding a new service to its portfolio. In Metalock there have already been instituted some changes. MAN is interested in investing in Metalock as Metalock has to be developed constantly in order for the company to be able to service new products produced by MAN Diesel (Christensen 2008). The approach to change is working quite well at this point as the employees of Metalock seem interested in more than merely financial gains. By conducting an acquisition with minimal changes implemented so far, MAN Diesel has succeeded in minimizing resistance. If changes are brought about slowly and in an evolutionary way with a clear focus, Metalock should have few problems in adapting and over time the corporate culture should be aligned with MAN Diesel’s.
Part 6: Conclusion, outlook and implications for future research

6.1 Conclusion and discussion

After extensive research we have concluded that successful cultural integration in international M&As relies on a number of factors determined by the situation specific circumstances. A successful M&A is one where the strategic goals are achieved whilst the level of cultural integration is kept at the desired level. In order to achieve cultural integration it is necessary to know both the culture of the acquiring and the acquired company. We argued that organizational structure and values were determinants of corporate culture for companies involved in international M&As and that national culture can be seen as a significant influence. In order to strengthen the cultural integration we argued that change should be managed thus reducing the acculturative stress.

From the paper we have drawn several conclusions. First we argue that the dimensions chosen are a comprehensive framework for analyzing corporate culture. If analyzed thoroughly the dimensions should yield a picture of the corporate culture in question that can be utilized to predict the reactions of the company in a given situation. Secondly we have concluded that successful cultural integration has a number of different meanings. If an acquiring company is interested in fully assimilating another company the term ‘successful cultural integration’ is a very specific goal. In a setting where a company acquires another company and leaves it intact, the successful cultural integration is relatively simple to achieve.

In the field of change management we have concluded that changing corporate cultures in order to align them is not feasible. Culture cannot be changed directly. Rather change management should be directed towards changing people’s perceptions of culture. Thereby corporate culture will evolve toward the desired configuration. Simply declaring that corporate culture will be changed will generally not be accepted by the members of the company and the new culture either ignored or opposed.

One of the major goals of this paper was to create a tangible framework for analyzing corporate cultures. National culture and organizational structure can now be measured with some precision. However the biggest challenge was to create a scale for values. We propose
that values influence the corporate culture through the underlying assumptions of the members of the organization.

Another major obstacle in relation to identifying values is that the paper only creates a snapshot of the corporate culture found in the companies we examine. If identifying values through participative observations these might have proven to be significantly different. However we find that it is unrealistic to conduct such a study both in terms of resources and applicability. When considering an M&A it is not realistic to conduct a pre-merger analysis of the potential targets over the course of several months. Furthermore access to managers and employees in the target company will be limited until the merger is announced thus making a meticulous examination of culture impossible.

Furthermore, when analyzing values the situational factors in the companies are a major determinant. The motivation for engaging in an M&A, as well as the integration of the companies, may very well be dictated by the circumstances such as financial trouble or new legislation. We find that without a way to distinguish between truly espoused values and circumstantial values, it may be impossible to identify the actual organizational culture.

Despite these obstacles, we believe that our framework provides the best way of analyzing corporate culture in a real-life M&A situation with changing conditions and where information is incomplete or unavailable.

6.1.1 Suggestions for further research

One of the most abused concepts of academic writing is the suggestions for further research. Many scholars suggest subjects that were either too uninteresting or even irrelevant for their specific paper. However we feel that some further understanding of corporate culture and international M&As could be obtained by using a different approach.

As mentioned several times before, culture is an elusive concept and in order to fully understand it we believe it would be beneficial for a researcher to immerse himself in such a culture. By observing an international merger from the inside of one of the companies, or even both, would give the researcher the opportunity to understand the norms and values of the organization, as well as distinguish between the espoused and the circumstantial values as well as identify the subcultures that may impact the merger. Furthermore general longitudinal studies as well as a larger sample of cases could improve the validity of our findings.
References


The Impact of Corporate Culture on International M&As


The Impact of Corporate Culture on International M&As


Appendices

Appendix 1: Interview 1 - Kim Bonde
Chairman of the board of Metalock Denmark A/S, since 2001

What is your background in relation to Metalock?
- I have been the attorney for Metalock for a number of years. Besides that I have been chairman of the board until 2008 where the acquisition was carried through.

What is Metalock’s workshop in Ishøj used for?
- The workshop is used for several things for the windmill industry, but the primary purpose of the workshop is to create tools that can be used in the daily work.

Is Ishøj important as a location for Metalock?
- There is no specific reason why the company has been placed in Ishøj besides that it is fairly close to the airport.

Is there any specific reason for the change of board in 2008?
- The board was replaced due to MAN acquiring Metalock. 75% of Metalock Holding was owned by Christensen Holding and 25% was owned by the employees. Of these 25% Kenneth Christensen possessed 7-8% and the remaining was owned by old employees. Hence, 82-83% of Metalock Holding was owned by Kenneth Christensen. Both the company and holding company were sold in 2008.

Which motives were behind the acquisition?
- The motives for MAN in taking over Metalock were to get closer to the customers. Also Metalock was, at some level, a competitor. From the point of view of Metalock, the 50% of the company’s revenue came from MAN. The company was furthermore facing a generational change problem. Kenneth Christensen has two children, Nina and
Jimmi. Neither of them had the same skills as their father and it was therefore difficult to imagine one of them taking over the business.

**Has there been any change in the internal processes after the acquisition?**
- Yes, Niels Nøjgaard has come to be the new managing director of Metalock Denmark. He came from a position as technical manager of MAN Diesel (Denmark). Kenneth Christensen is more business oriented. The two are very different which can be both good as they complement each other, but also problematic as they view issues very differently.

**Who initiated the acquisition process?**
- MAN took the initiative to acquire Metalock and Metalock saw it as a positive development.

**What will happen to Metalock’s other customers?**
- I think the other customers will be kept as far as possible as they are not direct competitors to MAN.

**Which impact will the takeover have on Metalock?**
- It is definitely a radical change as Metalock is used to being a small company working on their own, but now they are going to part of a super tanker. MAN has large revenues and the liquidity is transferred from the subsidiaries to the group on a daily basis. There is definitely tight control which Metalock needs to get used to.

**What would the alternative to the acquisition have been?**
- The alternative would have been that MAN would have established their own division which within a period of 3-4 years would have been able to compete with Metalock.

**Will the Metalock name be changed?**
- I do not know if it will change in time, but at this point there are no plans to change the name as far as I have been informed.
Was it easy to reach an agreement or did disagreements occur in the process?

- It was pretty simple. It was very relaxed, honest and friendly process. The price and terms were unusual as MAN buys the company including the assets, but the price is calculated based on the liquidity. They do not pay for outstanding debts except for MAN’s own of course. The price was fair considering the alternative. The price could according to budgets have been earned within 3½ years, but this was no longer a possibility since MAN would start to compete.

How did the employees react to the take over?

- The employees have been very satisfied with the agreement. The employees will receive a return on investment of app. 50 times. Most of them have invested app. DKK 20,000 in the company and after the acquisition they will get app. DKK 1 million payout. On top of this, MAN will reward each employee with a retention bonus of € 10,000 if they stay two years after the takeover.

Will Metalock continue to be located in Denmark?

- In principle there is no reason to keep Metalock’s location in Denmark, but I expect Metalock to stay here as the country is a bridge head to Sweden and due to the reputation Metalock has built here.

How did the negotiations with the German counterpart go?

- Generally speaking was it a good experience negotiating with the German. There were, of course some language issues as they are not particularly good at English. On the other hand I experienced a greater level of honesty and openness, but they were very meticulous. The negotiations were based on a standard contract, but they were open to negotiations. The Germans were very limited in their freedom of action and it was necessary to take breaks during the negotiations in order to work around obstacles.
Are the employees specialized in different areas or do they generally speaking possess the same skills?

- It is generally speaking machine engineers, but they are naturally on different levels due to experience. They are shipped out in teams of different sizes depending on the task at hand. The teams are not put together in predetermined structures, but often in a way where less experienced engineers work together with more experienced engineers.

How do Metalock employees travel?

- They travel on a day’s notice. There is no set policy in terms of the standard of the travel arrangements only on the location of hotels in relation to the ports. The engineers often stay on the ships they are working on.

How do you assess Metalock’s future?

- I think there will be an expansion of the company in Denmark. In addition to that I believe that several workshops will be established around the world. Discussions are already in progress concerning one in Singapore. Kenneth Christensen is expected to stay with the company for at least two years as he loses the remaining 20% of the purchase price if he resigns earlier.

How is the organization structured after the takeover?

- Niels Nøjgaard is the new managing director and he reports directly to MAN Diesel in Augsburg. Kenneth Christensen has become responsible for sales and marketing. It is expected that Metalock will be put under MAN Diesel in Denmark at some point.

Overall, how do you predict the integration will go?

- I am definitely expecting the integration to go easy and without any trouble.
Appendix 2: Interview 2 - Kenneth Christensen
Founder and previous CEO of Metalock Denmark A/S - Current Sales and Marketing Director.

What is you background in relation to Metalock?

- In principle, I founded Metalock. I got in, almost by coincidence, and got the responsibility for establishing a company in Denmark. I was called to a meeting with the Metalock group in Sweden, but I declined as I did not have the time as I needed to take care of my own job. But I went anyway and then I got the opportunity to establish this company in Denmark. It is a service company, which provides service to the industry as well as shipping. Today it is worldwide, back then it was only in Denmark.

Metalock Denmark started as a part of the Swedish Group?

- Well yes, at that time the company was under Electrolux. Then Electrolux put the company, Metalock Group, up for sale. The company consisted of Metalock Denmark, Sweden, Germany and Norway. So Electrolux sells the entire Metalock group, which is a very large group, to a Saudi business man. It is a large company, a large group to enter, and what happens is that management is replaced, which leads to a change of name to the ship division for which I am responsible. The division is renamed despite the direct reluctance of some and during that process I get quite unpopular. Therefore management tells me that they see me as a threat because I am quite reactionary. The company was originally called Gränges Metalock, but the name was changed to Metalock Industri Service. It ends with the company being put up for sales again and they ask me to find a buyer. However this does not happen as I choose to buy the company myself. And I have now sold it on to MAN Diesel. I took over two employees from Göteborg, when I started in 1987. Today we are app. 25. There is a natural limit on our type of service company. There would obviously have been a whole other development if it had been a manufacturing company.
Do you have a special concept in contrast to your competitors?

- We do not have many competitors. We competed among ourselves within the Metalock group. What happens then is that we in Metalock Denmark are ‘approved’ by MAN, which then gives us a big lead over our competitors. We also redesign and produce our service tools, which makes it impossible for anyone to do the job the exact same way that we do.

What were your feelings towards MAN acquiring Metalock?

- Well, I felt it as a way for the company to develop even further. We had a meeting about development and design of some new tools six months prior where MAN was interested in large investments into the project. But as we did not know the success level of the project we told them that they would need to invest directly in the project themselves. I do not know whether this might have caused the acquisition offer.

What has changed following the acquisition?

- In has changed in the way that I am no longer responsible for the daily operations. Niels H. Nøjgaard is. More sales people have been employed, as well as more engineers. The focus on development has become even larger. In that regard we also expect a large increase in revenues. We expect revenues of app. DKK 10 million within a few years.

  In the long run we will not be able to keep up with the pace on our own. Subcontractors, 2-4 companies, will be hired in. But Metalock Denmark will still function as the Business Center.

Did MAN impose any direct changes to Metalock?

- No we were told: ”You should just go on as usual and there is no need to save money”, which has made it possible to speed up several projects. There is naturally more reporting to management in Germany, but in terms of development we should not slow down.
Who do you report to?

- We report to MAN PrimeServ in Hamburg. There were some political conflicts in MAN’s top management in terms of whether Metalock should be affiliated with Germany or MAN Diesel in Denmark. The boss in Hamburg actually started out being opposed to the acquisition, but when he was offered the responsibility for the company suddenly he had no objections.

Have there been any conflicts in relation to the specific design of the agreement?

- There have been some sticking points along the way, but the offer we received was pretty fair. One of the problem areas was that the German wanted penalties in case engineers chose to terminate the cooperation and leave the company. But for natural reasons we could not commit to this agreement. We had them check up on German legislation and they admitted that they were on the wrong track. The only one who has been bound by the agreement is me, which is allowed as I am the managing director. There is a clause stating that I must stay within the company until 31 July 2010 in order to receive full price for the shares sold. This is naturally not the case in case of illness where I will not be able to do my job. In this case I would still receive full payment. They could choose to fire me before this date if they do not see any reason for retaining me, but this would also result in full payment.

Where do you see yourself after 31 July 2010?

- I do not know. I look forward to retiring. I have worked since where I started my apprenticeship at age 14. If count all my working hours I think I have done my duty.

Will the Metalock name remain or will the company become completely integrated within MAN?

- It has been up to discussion whether the name should be changed. However at least for now it is agreed that the name should remain unchanged. Over the years Metalock Denmark has become a brand name which is associated with fairs as well as its great recognition as a company with MAN ’approval’. I predict negative synergies if the Metalock name is removed.
Do you predict any problems or difficulties in cooperation with a German company?

- I think we will continue to work as an independent unit. I think we are going to be able to run our business on our own. During the coming year we will be receiving some tools from Hamburg which we can assess whether we will use or not.

Do you foresee any major structural changes?

- I highly doubt that there will be any major changes. So far we have been told to do business as usual.

How has the employees reacted on being sold to a German company?

- They are very satisfied due to the development opportunities it provides and because the company is being preserved. The alternative would have been that MAN in time would have established their own specialized service unit and perhaps stolen employees from Metalock, but naturally taken all the revenue with them that MAN is currently placing in our company.

What will happen Metalock’s other customers?

- We expect to keep our customers. Unless they of course do not want us. But since 25% of our revenue is gained from other customers than MAN we will naturally make an effort not to lose them. We are also still pursuing new potential customers. I have just sent an offer to the Lindø shipyard and currently await an answer from them.

How is the organizational structure of Metalock after the acquisition?

- We have a very flat organization. The Germans are much more hierarchical. The structure as such has not changed. Niels Nøjgaard holds the position as managing director. Below him is the foreman with his crew. I have moved into a staff function.

Do you predict any difficulties in having to work so closely with Germans?

- The problem with Germans is that they do not make any decisions until everything has been approval by the boss. They want to be informed on what is going on in the company and we will naturally report back, but neither we nor they will go into details.
as we need to maintain the efficiency in regards to development as well as the service level. In relation to customers, if neither Niels nor I are present, the foreman needs to be able to take responsibility.

*Which type of education do the employees typically have?*

- They are all machine engineers and then it takes app. 1-3 years to be able to handle the job in Metalock.

*How long does it usually take to finish an assignment on a ship?*

- 6-14 days transportation included. It naturally depends on the character of the assignment, but most assignments take 8-10 days. On top of that the time should be ascribed for the ship crew to take a part the engine before we arrive as well as putting it together again afterwards. It is important for the ship owners that the work is done as fast possible as it can cost them up to €75,000 a day to have a ship laying still.
Appendix 3: Interview 3 – Niels H. Nøjgaard

Current Managing Director of Metalock Denmark A/S (notes from telephone interview)

**How did the negotiations concerning the acquisition proceed?**

- I have not had any major influence on the negotiations and I was not integrated in the process before I was offered a job in Metalock. Therefore I can hardly comment on the process.

**Do you see major differences of Metalock and MAN in terms of organizational structure?**

- Metalock is a very flat organization where things are done rapidly. In MAN we are used to documenting most of our processes. I have previously worked for MAN Diesel in Denmark so I do not know exactly how large the difference is between our division here in Denmark and the one in Hamburg which Metalock now is a part of.

**Have you taken part in the implementation of new initiatives in Metalock after the acquisition?**

- There has naturally be changes since the takeover, but generally speaking it is 'business as usual’. We have introduced some changes in terms of accounting procedures and overall financials are managed from Hamburg. I doubt that the employees here will report that they have noticed significant changes.

**Do you expect Metalock to remain an independent business unit or will the company be further integrated into MAN?**

- So far Metalock will remain independent. They have a good brand name and present reasonable results. I can however not predict what plans MAN has for the future.