**Literature Review**

**Introduction**

According to Elsass (1994), culture can be defined as values, beliefs and knowledge, and culture is established through social interactions to define and predict acceptable organizational behavior. Many studies have shown that cultural incompatibility is the main reason for the failure of mergers and acquisitions, and organizational culture often affects the M&A performance of enterprises. In this section, we will explain in detail what is the motivation for M&A and M&A. In addition, by reading Stahl and Voigt (2008), this chapter will further analyze and deepen the hypothesis they make.

**What is M&A?**

The term of ‘merger’ and ‘acquisition’ is commonly used as synonyms for each other from technically, there is a clear distinction in the economic consequences between the two (Piesse et al., 2013). One way to explain the difference is that the acquisition refers to the acquisition of more than 50% of the equity of the target company, while the merger describes the merger of multiple companies into a single legal entity (Piesse et al., 2013). Due to the increase in the volume of M&A activities and the complexity of these transactions, the theme of M&A in recent years has increased significantly in the literature (Appelbaum et al., 2007; Goyal and Joshi, 2011) (Gaughan, 2002). This is driven by global privatization, deregulation, globalization and liberalization (Gupta, 2012). In the past three decades, three wave of cross-border transactions have emerged. The first wave occurred in the 1980s, while the second occurred in the second half of the 1990s, and the third response to increasing competition and globalization in 2007 (Rizvi, 2008) demonstrates how M&A is a competitive strategy (Malik et al., 2014). Generally, according to the functions of M&A and the industrial characteristics involved, they can be divided into three types. The first is horizontal M&A, that is, the horizontal integration of enterprises in the international scope, and the horizontal M&A develop rapidly. Followed by vertical M&A, it is a merger in the upstream and downstream of the same industry, vertical M&Aof enterprises without direct competition. The last is mixed M&A, which is a merger between different industries. The purpose of mixed M&A is to spread risk (Robert et al, 2016).

**Motivation for M&A**

Resource-based perspectives have been the main theories that underscore the benefits of mergers and acquisitions (Barney, 1991), and it is important to consider the role of internalization theory and its benefits (Rugman, 1981). One of the main motivations for M&A is to achieve synergies by merging the assets of companies involved in mergers and acquisitions, including operational, financial or management benefits (Yook, 2004; Malik et al., 2014; Sehleanu, 2015), by combining the assets of the companies involved in the M&A (Loukianova et al., 2017) through the achievement of economies of scale and scope (Brealey et al., 2006), the standardisation of products globally, which supports the rationalisation of production and coordination of resources (Kobrin, 1991), amortisation of intangible assets, sharing of resources and knowledge (Sarala and Vaara, 2010) and increased bargaining power (Fatima and Shehzad, 2014). Furthermore, through internationalisation, companies are able to increase learning, which is expected to increase performance (Gupta, 2012). In addition, M&A provide the opportunity to trade non-marketable resources and to engage in purchase and sale of resources in bundle (Gupta, 2012). The M&A may also occur on non-value maximising reasons including the development of the reputation and prestige of organisation (Malatesta, 1983). Finally, M&A also provide companies with sufficient and cheap raw materials and labor to enhance their competitiveness. Through M&A, enterprises have expanded their scale and become the main customers of raw materials. The improvement of negotiation ability has enabled enterprises to obtain cheap production materials. At the same time, efficient management, full utilization of human resources and corporate visibility can help companies reduce the labor force. Thereby improving the overall competitiveness of the company. The primary motivation for M&A is to maximise shareholder value rather than the sum of the two companies (Sudarsanam, 2003). therefore, some scholars believe that M&A is a strategic approach to achieving sustainable competitive advantage (Prakash and Balakrishna, 2006; Piesse et al., 2013).

The effective integration of two companies through M&A is essential to its success (Stahl and Voigt, 2008). However, research shows that achieving a business combination through M&A does not necessarily produce synergies. In fact, the majority of M&A do not show synergistic effects (Sirower and Shani, 2006) whilst a large number of M&A were later deprived (Stahl and Voigt, 2008). Even with synergies, research has also shown that these targeted at the target company's shareholders, mainly because of the premium paid by the acquiring company. More and more research shows that there are limits to the collaborative implementation process. This means that implementing an effective integration process that minimizes inter-organizational and cultural conflicts is important to achieve the desired synergies. For example, Morosini (2005) proposed a “common glue” or common identity, which is essential to simplify the transfer of capabilities in mergers and acquisitions. Similarly, Prakash and Balakrishna (2006) found that the benefits of M&A are based on the different cultures of the company and the people involved in the transaction.

As Schweiger (2002) proposed, in addition to target companies that are acquired at prices below intrinsic value, integration strategies are implemented to capture synergies that are critical to maximizing shareholder value. Two elements of the integration process are required for collaborative implementation: sociocultural integration and task integration. This model extends the study by Birkinshaw (2000). In regard to M&A, it distinguishes between tasks and human integration. The former refers to the transfer of resources and capabilities. Although the latter refers to the development of a common identity and a positive attitude, this development is directed at the merged entity. Despite this, in addition to culture, there are many variables that have an impact on M&A performance (Child et al., 2001), such as strategic fit, financial fit, appropriate change management, and even consumer response to M&A (Gupta, 2012).

**Sociocultural and Task Integration**

Stahl and Voigt (2008) pointed out that the positive factors on affecting sociocultural integration are mainly employees' positive attitude towards the combined entity, the development of common identity and the trust shared among the members of the organization. Stahl and Voigt (2008) show how humans naturally attract people like them, including cultural backgrounds (Launay and Dunbar, 2015). In the context of M&A, domestic M&A are conducted in the same country, and cross-border M&A are in two different countries. Therefore, cross-border M&A involve two cultures, so this study mainly studies cross-border M&A. Culture can be seen as a lens of perception of the world due to differences in culture and management between different countries (Hofstede, 1980), Hovers (1973) believes that the main goal of any organizational merger is to strengthen financial health, that is, financial synergies. However, M&A companies in two different countries may lead to cultural conflicts. Cultural differences are the main reason for the high rate of failure of M&A (Zollo & Meier, 2008). Although research shows that common norms and values ​​help to develop trust and reduce conflict. At the same time, if there is a difference in shared values, trust may be eroded and a greater degree of conflict may occur. Thus, perceived bias and cognitive processes, including negative features and feelings, are associated with members of external groups (Kramer, 1999). This is reflected in the theory of social identity; members of the organization expressed support for members of the group and expressed negative views on members outside the group to improve the relative position of their own groups. In the case of M&A, intra-group bias is more important in the acquired company because they believe that external threats from another company strengthen the intra-group cohesion among the same company members. Resistance is called “conquering army syndrome” (Datta and Grant, 1990: 32). Although the person who acquired the company may have a superior sense of the employees of the acquired company. In cross-border mergers and acquisitions, stereotypes and xenophobia may increase hostility and untrust (Krug and Nigh, 2001). Therefore, the first hypothesis of this paper is:

 $H\_{1}:$ Cultural differences in cross-border M&A would exhibit a negative association with sociocultural integration outcomes.

Although cultural differences may lead to the disruption of value in M&A, the literature also suggests that cultural differences can stimulate value creation and learning (Stahl and Voigt, 2008). Resource-based perspectives are used to demonstrate that mergers and acquisitions provide a competitive advantage because it provides valuable capabilities that are deeply rooted in a variety of cultural and institutional environments. Researchers have shown that cultural differences will overcome the rigidities of acquiring companies, enhance knowledge structures, and accelerate learning and innovation, but this requires that the cultural distance of companies involved in M&A is not too great (Björkman et al., 2007). In other words, as long as the cultural differences are not too great, complementarity can be achieved. These arguments show that cultural differences will produce complementary abilities, and if they are only modest, they will align and promote each other.

However, there are challenges to be able to estimate in advance whether cultural differences will lead to profit or loss of shareholder value. This is because the interaction and integration of sociocultural and task integration are complex. Studies have shown that weak sociocultural integration inhibits the effectiveness of task integration in driving operational synergies, thereby highlighting the importance of social and cultural integration in enhancing task integration (Birkinshaw et al., 2001; Stahl and Voigt, 2008). Therefore, the second assumption is:

$H\_{2}:$ Cultural differences in cross-border M&A would exhibit a negative association with synergy realisation.

The view of capital markets on the role of culture in M&A suggests that cultural differences will influence investors' expectations of the company's future performance based on the efficient market hypothesis (Chatterjee et al., 1992), thereby affecting shareholder value. Information available on the market will be included in the stock price. As a result, shareholders may react differently depending on the cultural differences of the companies making the merger. For example, if there are significant cultural differences due to the additional costs associated with post-acquisition administration and mergers, investors may have a negative impact on the merger. (Martynova and Renneboog, 2008). Investors may also be concerned about the amount of knowledge a company may have in a foreign market, which may also increase the risk of overpayment of the target. Therefore, the third assumption is as follows:

$H\_{3}:$ Cultural differences in cross-border M&A would exhibit a negative association with acquisition announcement returns for the shareholders of the acquiring firm.

However, the announcement of the acquisition representing the expected earnings of the merger did not reflect any actual economic benefits and the creation of long-term shareholder value (Healy, 1992). However, Inoue et al (2014) found that mergers and acquisitions of cross-border bidders in developing economies tend to receive higher returns than domestic companies. Synergy benefits translate into shareholder value only when investors believe that the price paid to the target company is reasonable (Schweiger, 2002). To explain the long-term impact of mergers and acquisitions, the post-acquisition stock returns are used. The fourth assumption as follows:

$H\_{4}:$ Cultural differences in cross-border M&A would exhibit a negative association with post-acquisition share return for the shareholders of the acquiring company.

**Moderating Variables in the Relationship Between Cultural Difference and the Performance of M&A**

Although culture is an abstract concept, there are often differences in national and organizational cultures, which can lead to different consequences in the post-merger integration process (Stahl and Voigt, 2008; Vaara et al., 2012). Organizations often ignore cultural differences. Hofstede (1980) mentioned that culture is the collective planning of the mind, distinguishing members of one human group from members of another. Culture influences how people interact in an organization. It has been said that national cultures are more aware and more resistant to change than organizational structures (Schneider and Barsoux, 2003). National culture plays a vital role in resolving conflicts in mergers and seeking successful integration (Olie,1990). Therefore, national culture is more restrained than organizational culture differences, especially because of the need for “two-tier cultural adaptation” (Barkema et al., 1996: 151), and there should be a bridge between the state and the organizational level. However, some scholars disagree with this and find that organizational culture may be more influential than national cultural differences because it may lead to employees' bad attitudes and commitments to mergers and acquisitions (Weber et al., 1996). In addition, some people have emphasized how to increase the problem by organizing culture rather than national culture. Therefore, the fifth assumption as follows:

$H\_{5}:$ The negative association with sociocultural integration is higher for organisational cultural compared with national culture.

While cultural differences can increase a company's competitive advantage by providing diversity and key capabilities and resources, this value depends on culture. Compared with domestic M&A, cultural differences in cross-border M&A will show greater complementarity and learning opportunities. Therefore, the sixth hypothesis of this study is:

$H\_{6}:$ The negative association with synergy realisation is higher for organisational cultural compared with national culture.

It is expected that the negative shareholder effect would less significant in cross-border M&A compared with domestic M&A, because of the ‘soft’ variables like cultural fit is often overlooked by investors. Therefore, the seventh hypothesis in this study is that:

$H\_{7}:$ The negative association with shareholder value is higher for organisational cultural compared with national culture.

In addition, it is important to consider the company relevance of the entities involved in the merger, especially the merger is used for related diversification. Corporate relevance should be seen as a regulator of the relationship between cultural differences and M&A outcomes because it affects the degree of integration. Some people think that the higher the relevance, the need for more business integration and organizational change. Therefore, the eighth assumption as follows:

$H\_{8}:$ The negative association that cultural difference has with sociocultural integration is larger if there is a higher degree of relatedness.

In terms of synergistic realization, there is still no clear understanding of the regulatory role of relevance because there are different findings (Lien and Klein, 2006). It is expected that the realization of synergies will require more interaction and coordination needs, but the link between cultural and human resource issues will increase the risk of failure (Goulet and Schweiger, 2006), resulting in the ninth hypothesis:

 $H\_{9}:$ The negative association that cultural difference has with synergy realisation is larger if there is a higher degree of relatedness.

Finally, as mentioned, cultural differences can have a negative impact on shareholder value due to speculation about future company performance. If the acquiring company tolerates cultural diversity and allows the organization culture to remain in the target company, cultural differences are less of a problem, and cultural fit and shareholder wealth are expected to be influenced by cultural tolerance. Acquisition of the company. Therefore, the final assumption is:

$H\_{10}:$ The negative association that cultural difference has with shareholder value is larger if there is a higher degree of relatedness.

**Conclusion**

In summary, due to global privatization and globalization, M&A have been a hot topic in academic literature. The main motivation for M&A is to achieve synergy by merging the assets of the companies involved in the merger. Good mergers and acquisitions add many benefits to the company, such as reducing labor and improving competitiveness. However, most companies' M&A do not show synergy, which means that companies need to implement an effective integration process to minimize organizational cultural conflicts. This article deals with cross-border M&A. Cross-border involve two different cultures. Cultural differences are the main reason for the failure of M&A. Therefore, based on the hypotheses put forward by Stahl and Voigt, this paper analyzes the relationship between cultural differences and social integration results, synergies, shareholder returns and returns. In addition, culture is an abstract concept, and there are differences in national culture, national culture, and organizational culture. Therefore, the remaining hypotheses of this paper are related to national culture and national culture, organizational culture and shareholder value, integration results, and synergies. The analysis shows that compared with the national culture, the negative correlation between organizational culture and shareholder value, integration results, and synergies is greater.

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