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‘INTERNATIONAL BUSINESS’

**CULTURE IMPACT ON MERGERS AND  
ACQUISITIONS CARRIED OUT BY ESTONIAN  
COMPANIES IN LATVIA**

KULTŪRAS IETEKME UZ UZŅĒMUMU  
APVIENOŠANU UN SAPLŪŠANU, KO VEIKUŠAS  
IGAUNIJAS KOMPĀNIJAS LATVIJĀ

MASTER THESIS

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## **Annotation**

### **Master's thesis "Culture impact on mergers and acquisitions carried out by Estonian companies in Latvia"**

The master's thesis looks upon questions relative to culture impact on the mergers and acquisitions carried out by Estonian companies in Latvia.

Literature used includes books, scientific journals and publications by international organizations.

Methodology chosen by the author is a questionnaire based on Geert Hofstede's culture dimensions as well as an interview of Lauma Lingerie. The results were analysed according to culture dimensions.

The research includes an overview of the factors affecting mergers and acquisitions such as globalization, liberalization, reasons for merging, merger and acquisition types, leadership and communication strategy as well as information about impact of Estonian and Latvian language differences and major deals carried out by Estonian companies in Latvia.

Mergers and acquisitions, culture difference impact.

## **Anotācija**

### **Maģistra darbs „Kultūras ietekme uz uzņēmumu apvienošanu un saplūšanu, ko veikušas Igaunijas kompānijas Latvija”**

Maģistra darbs apskata jautājumus, kas saistīti ar kultūras ietekmi uz uzņēmumu apvienošanu un saplūšanu, ko veikušas igauņu kompānijas Latvijā.

Literatūras sarakstā ir grāmatas, zinātniskie žurnāli un starptautisko organizāciju publikācijas.

Izvēlētā metodoloģija ir anketa, kas balstīta uz Gerta Hofstedes (Geert Hofstede) kultūras dimensijām, kā arī intervija ar uzņēmumu Lauma Lingerie. Rezultāti ir analizēti saistībā ar kultūras dimensijām.

Pētījums dod pārskatu par faktoriem, kas ietekmē uzņēmumu apvienošanu un saplūšanu, kā, piemēram, globalizācija, liberalizācija, apvienošanās iemesli, apvienošanas un saplūšanas tipi, vadība, komunikācijas stratēģija, kā arī informācija par ietekmi, kas rodas no igauņu un latviešu valodas atšķirībām, un lielākie apvienošanās un saplūšanas darījumi.

Uzņēmumu apvienošanās un saplūšana, kultūras atšķirību ietekme.

## **Аннотация**

### **Магистрская работа по теме « Влияние культуры на объединение и слияния компаний производимых Эстонскими компаниями в Латвии»**

В магистерской работе рассматриваются культурные аспекты, оказывающие влияние на объединения и слияний производимые эстонскими компаниями в Латвии.

В работе были использованы: книги , научная литература, публикации и отчеты международных организаций.

Выбранная автором методология исследования основана на анкетировании опережающемся культурных дименсий Geert Hofstede, а также результаты интервью производимых Lauma Lingerie. Результаты исследования проанализированы с точки зрения культурных дименсий.

Исследования описывает факторы, влияющие на предприятия производящие слияния и объединения, таки как глобализация, либерализация бизнеса, приводит причины побуждающие к возникновению процессов объединения.

Автор рассматривает возможные типы руководства, стратегии коммуникации в процессе слияния и объединения, влияния культурных особенностей на предприятие, а также анализирует полученную информацию о возникающих барьерах делового общения связи лингвистическими особенностями латышского, эстонского языка.

Объединение и слияние предприятий, влияния культурных различий.

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## **Abbreviations**

CEO = chief executive officer

Ex. = for example

HMAS = high masculinity

HPD = high power distance

HR = human resources

IMF= International Monetary Fund

ILO = International Labour Organization

LMAS = low masculinity

LPD= low power distance

M&A= mergers and acquisitions

SFG = Silvano Fashion Group

TMT= technology, media and telecommunications

WTO = World Trade Organization

UA = uncertainty avoidance

## **Introduction**

According to the United Nations World Investment Report, the mergers count only for 3% of the total M&A transactions. It also argues that the annual growth of M&A activities is more than 30%. And the tendency for trans-national M&As has never been as high as in the last 20 years.

Developing markets have become one of the major places of investment from the part of developed countries. After the collapse of the Soviet bloc, Central and Eastern European countries became the most important region to invest in, in European context.

Since gaining independence in the 90-ties, also Latvia and Estonia have become a part of this process first as countries where to invest and now as countries moving towards the tendency of becoming investors themselves in other developing markets.

**The objective** of this masters thesis is to identify those **culture differences** - Latvian and Estonian - that are of major importance when doing business and especially when carrying out mergers and acquisitions in Latvia.

The research theme is very actual as in the last five years, Estonia has been one of the biggest FDI partners of Latvia. However, authors experience shows that there are some common misunderstandings that both cultures tend to have. So far, there has been little research of the culture impact on economical relations such as mergers and acquisitions with respect to Latvia and Estonia.

**Hypothesis** of the author is that culture differences have an impact on the success of mergers and acquisitions not only globally but also in Latvia.

**One of the aims of the research** is to create a culture related framework for successful international merger and acquisition in Latvian context. The masters thesis identifies culture differences - Latvian and Estonian by using Geert Hofstedes culture dimensions in order to raise investor culture awareness.

The author got acquainted with a large written material in order to be informed about the global tendencies and research questions related to the subject. **The literature used** in the research included books by Voigt, Fubini, Gardner, Wilson etc. that look upon theoretical aspects of mergers and acquisitions and with a particular attention to culture sensitive questions. Scientific journals were used when carrying out the research as well as publications and researches published by international organizations such as International Labour Organization, United Nations etc.

The author chose the **methodology – questionnaire and interview** to reach the objectives of the research. The questionnaire was based on 5 culture dimensions by Geert Hofstede. The interview was carried out in Lauma Lingerie in order to get a practical approach about an already done acquisition and the culture impact on the deal.

In order to reach the objectives, the thesis is structured as follows: **Theoretical part** gives an overview of the major factors affecting M&A such as globalization, liberalization, leadership, communication and various types of strategies as well as various author ideas about the subject. **Analytical part** gives an overview of the methodology used in the research, merger related situation in Latvia; Estonian and Latvian language related information is given in a comparative view, also the major deals carried out by Estonian companies carried out in Latvia are looked upon. The **practical part** concentrates on the questionnaire that reflects in a practical way the culture differences between Latvians, Estonians and Russians living in Estonia and Latvia. The practical part also includes analysis of culture difference impact on the acquisition of Lauma Lingerie.

There were several limitations for the work – the limited access to literature about the field. The practical research is based on 50 questionnaires. The data would be more trustworthy if the questionnaire was compiled by more people. The statistical data could be used in a limited way as there was only available data about investments and not about M&A deals in Latvia and Estonia.

# 1. FACTORS AFFECTING M&A's

## 1. 1. Historical factors

### 1.1.1. Globalization and it's impact on M&A

Starting from 1980-ties enterprises have started to become more internationally exposed and more affected by global trends. As economical processes become more and more interdependent, globalization has become a necessity for survival. Even if the globalization tendencies can be seen in many domains of nowadays human life, it does not mean that the national cultures are being cancelled or will be facing extinction.

Many of the important and fundamental changes in the business environment have been subsumed under the heading of “globalization”. But in the same time many historians note that the integration levels we are facing today are in many cases lower than 100 years ago.<sup>1</sup> In the author's opinion, it could be so in specific sectors, however the overall integration has been intensified in the last 30 years.

Globalization is a process that affects global population and calls for the promotion of global consumer welfare.<sup>2</sup> There is a growing trend to create global consumer welfare that is backed by collective action of states. Globalization can also be defined as the integration of production and distribution processes concerning goods and service beyond the borders of nation-states.<sup>3</sup>

Mergers and acquisitions is not a result of globalization – they are in fact major source for globalization to spread out.

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<sup>1</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*. The Netherlands, Springer, AH Dordrecht, 2005, P. 41

<sup>2</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*. The Hague, Kluwer Law International, 2003, P.10

<sup>3</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*. The Netherlands, Springer, AH Dordrecht, 2005, P. 47

There is a lot of literature about globalization. But a good definition for the process is given by Joseph Wilson: “Globalization is a complex, dynamic legal and social processes that take place within an integrated whole, without regard to geographical boundaries.”<sup>4</sup>

There is also a distinction between globalization and internationalization.

International activities are related to cooperation between the states whereas globalization is a creation of activities as an “integrated whole”.<sup>5</sup> “The major distinguishing characteristic of global activities from international activities is that the areas of integration are largely oblivious to state boundaries, and that the processes of globalization usually occur without or with little direct agency of the state.”<sup>6</sup>

International activities usually have an impact only on the states that are involved in some activities. When the trend is global, such as global warming, it affects humankind all around the globe without demanding consensus.

Globalization has different dimensions: social, cultural, political and economic.

Economic dimension in globalization has been created by trade liberalization, technological progress and transport cost reductions which will be looked at later on. Technological progress has also had a very deep impact on activities that could be expanded worldwide. This is the case, for example, of financial services. Internet and telecommunication progress allows monitoring international activities wherever the real operation takes place. Internet has had a very crucial role in the globalization process as it gives access to many services at almost no cost. It allows not only saving on transactional costs but also allows savings on organization costs.<sup>7</sup> Internet is used not only as a medium for services but also as a universal place where to post questions and get answers. This allows potential clients to consult the history of a product or a company and create their own opinion without having a direct contact with it.

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<sup>4</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*. The Hague, Kluwer Law International, 2003, P.11

<sup>5</sup> Ibid., P.11

<sup>6</sup> Ibid., P.11

<sup>7</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*. The Netherlands Springer, AH Dordrecht, 2005, P. 40

Globalization has created a situation where there is a declining significance of national borders in the operation, among other things, of national economies.<sup>8</sup>

Another factors created by globalization is the ineffectiveness of national law – the limited capacity to regulate transnational corporations.<sup>9</sup> The author believes that this is only partially true, especially when talking about the member states of the WTO, who have accepted principles. There are a number of international mechanisms that allow a country to enforce its regulatory framework. However, if previously there was a possibility of control only by national regulations then now also the state activities depend more on international help in ensuring control. M&A are generally controlled in the framework of national competition law.

Although globalization is nowadays seen as a long term trend, the perspective of activities carried out in this light has very short term orientation. The author agrees, that immediate profit, short-term share price increase and shareholder satisfaction is the most important aspects for nowadays managers.<sup>10</sup>

The patterns in consumer behaviour are undergoing a substantial and global change. If previously local products were associated with the best quality and price, then after globalization process local products have become less competitive, and many national companies have been forced to close. However, global companies are gaining more trust in the eyes of consumers, as they are able to survive in the changing environment, they offer competitive prices and their products can be found wherever the consumer moves to.

Decrease in price, however, is almost always associated with a decrease in quality. A research has showed that businesses often don't take into account consumers needs, and in fact, a number of customers experience bad service provided by banks, airlines,

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<sup>8</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*. The Hague, Kluwer Law International, 2003, P.14

<sup>9</sup> Ibid., P15

<sup>10</sup> Ibid., P.42

hotels and retailers.<sup>11</sup> To author's mind, the new generation of consumers will get used to less qualitative services and will no longer see this as a problem mostly because they will not have any other experience.

There is also a change in consumption of a certain object. It is a new trend that products originally created for satisfaction of a need are now satisfying new needs—for example, a coffee urn can no longer be only an object for practical use but also an object that satisfies the need for design and experience.

According to Voigt<sup>12</sup>, consumer preferences will become more similar on a worldwide scale. There are also three arguments in favour of consumer preferences becoming more alike: 1) worldwide availability of mass media – information is everywhere the same; 2) growth of tourism has enabled people to get more acquainted with other cultures; 3) higher income levels allow people to lead similar lifestyles. However, this idea is highly disputable as it can be seen that even though general preferences are getting broader, also the need of individual approach is emerging. Also the income levels are not spread out evenly and in the developed world the financial resources available per society members have the tendency to decrease. The globalization trends can be seen in most of the industries – automotive, mining, airlines, financial, telecommunications, oil, pharmaceutical etc. that are being restructured according to the new needs demanded by globalization.

Globalization trends can be seen not only in growing interdependence in various sectors but also as an increase in foreign direct investment.<sup>13</sup> It is commonly believed that the globalization will result in few players in every industry that will dominate the globe.

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<sup>11</sup>Wilson J., *Globalization and the Limits of National Merger Control Laws*. The Hague, Kluwer Law International, 2003, P.28

<sup>12</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*, The Netherlands, Springer, AH Dordrecht, 2005, P. 49.

<sup>13</sup> Ibid., P.44

### **1.1.2. Liberalisation and it's role in M&A deal increase**

Another trend that has increased the number of M&A is the liberalisation that has been one of the most important reasons for globalization to expand in such a rapid pace.

Trade liberalization has been the result of GATT (General Agreement on Tariffs and Trade), now WTO (World Trade Organization). Companies could expand their operations around the world with no additional cost. M&A trend has been largely expanded due to the above mentioned organization that is working on reduction of trade barriers (tariffs and quotas on imports). Currently the WTO counts 151 members, including China. In addition to what has already been said, it is important to note that liberalization took place also in the field of foreign direct investments as well as in market opening towards internationalization. As noted above, the WTO has been one of the driving forces in this respect. The most important effects created by this organization are connected to the GATS – General agreement on trade in services, TRIMS- Agreement on trade-related investment measures, TRIPS- Agreement on trade-related aspects of intellectual property rights, as well as consequences on trade created by Uruguay and Doha round negotiations.

Starting from the 1980ties, nation-states have applied an unprecedented degree of liberalization. This was partially due to the economic problems facing by the state where liberalization many times accompanied by privatisation offered a tool for removing the responsibility from the state. Also special fiscal tools were introduced in order to gain investor interest.<sup>14</sup> The author believes that every state uses fiscal and monetary tools at its disposal in order to boost investments and long term profit. Almost all most important sectors of national economies were liberalized and then privatized and restructured. This was, for example, the case of telecommunications, railways, etc. Market liberalization that was previously seen as a threat endangering national economy allowing the rich getting richer and the poor getting poorer was now seen as a possibility of obtaining additional economic growth. This was even

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<sup>14</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*, The Netherlands, Springer, AH Dordrecht, 2005, P.39

more so in the developing markets that put a particular effort in attracting foreign direct investments.

From the point of view of the economic theory, the effect of trade liberalization in the world trade is ambivalent; the net effect depends on the size of trade-creating effects within the regional agreement and the size of trade-diverting effects in relationship to trading partners who are not members of the zone.<sup>15</sup> The author believes that there will always be economic imbalance between the net gains of the companies operating in global level and the local companies that realize orders.

In European context, the European Union with its institutional framework has had a major impact on the region – both by creating a common market as well as by ensuring 4 fundamental freedoms -free movement of goods, free movement of services and freedom of establishment, free movement of persons and workforce and free movement of capital. Also the single European currency and *acquis communautaire* harmonized by every member state are simplifying operations in cross border context in the EU and beyond. This has created a significant cost reduction for companies working in the European Union, which now counts 27 members and is planning accession of new members in the years to come. The EU liberalization is affecting not only companies operating in the member states but also companies that operate in countries with whom the European Union has special partnership agreements (example, Ukraine) or that are part of the European Economic Area (Norway, Iceland and Liechtenstein). It could be argued that the EU is the most liberalized region in the world. Liberalization as a result has decreased transaction costs and created cross-border harmonized standards.<sup>16</sup> The author is convinced that it was a set of circumstances – technological progress, as well as other factors that had a great effect on the decrease of the transaction costs.

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<sup>15</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*, The Netherlands, Springer, AH Dordrecht, 2005, P. 42

<sup>16</sup> *Ibid.*, P.45

International Monetary Fund (IMF) and its standards of capital convertibility have been the driving force for liberalization of financial services. The result of it was a reduction of transaction costs of financial services for individual companies as well as simplified entry in markets with different currency.

The liberalization has brought a change in the composition of gross-national product. There was large shift from industrial and traditional (agriculture) sectors to service sector which now counts almost 2/3 of all the economic activities in the developed countries.

## **1.2. Factors affecting merger and acquisition success**

### **1.2.1. Reasons for merging**

Historically M&As appeared in the USA, in the second half of the 19<sup>th</sup> century when the business organizations emerged in the form of corporations. Since then, there have been four merger waves. At the moment there is the fifth merger wave which started in Europe and has now spread all over the world.

Mergers and acquisitions are used for obtaining various objectives, for example, cost reduction (both in terms on enterprise revenue tax as well as cheap and well-trained workforce, transaction cost reduction, etc.), European location (with respect to China and India), cost reduction by company growth in size, increase in knowledge and expertise and entrance in the local market. Sometimes the acquirer is forced to expand not to face stagnation or is forced by other competitor expansion. In this case taking the risk to merge or to carry out acquisition could be one of the easiest ways to maintain the market share or to differentiate from the competitors. Employee competencies and skills can form a competitive advantage for the company and thus it can also be one of the reasons for a merger or acquisition.

In international mergers and acquisition it is not always clear where the value of the acquired company is. For example, if the company acquired is located in a country where government controls much of the economy, it is the value of personal ties

between managers and government officials that is of major concern.<sup>17</sup> The value of the organization can also be in its creativity that can allow a stagnating enterprise to gain a new life.

According to Wilson<sup>18</sup>, there is a list of reasons for a company to merge with or acquire another company:

- The wish to have monopoly income;
- The wish to use unutilized market power;
- Consequence of a decreasing home market/too high competition in the home market;
- Need to diversify business for reducing risk;
- To expand the company in order to have an economical scale of production/distribution;
- Lack of knowledge, patents, resources that could neutralize critical lacks in one's own company;
- Achieving a considerable size for reducing advertisement costs or for having access to capital markets;
- Gaining new managerial knowledge;
- Need to change the current management;
- Getting tax reductions;
- Desire of management to create a growing number of subordinates.

The World Investment Report by United Nations states that the current merger activities are characterized by, as complementary factors to what has been said so far, speed and access to proprietary assets. According to this report, merging with or acquiring another company is the fastest way for expansion in domestic or international market.<sup>19</sup> In fact, if a new product has to be launched into the market it

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<sup>17</sup> Gitelson G., Bing W.J., Laroche L., "The Impact of Culture on Mergers and Acquisitions", *ITAP International*, [online, 15.02.2008.] Accessible online at: <http://www.itapintl.com/mergersandacquisitions.htm>

<sup>18</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*, The Hague, Kluwer Law International, 2003, P.30

<sup>19</sup> "World Investment Report 2005", *Academic Foundation for United Nations*, 2005, P.352

can be easier done if there is already a distribution channel, a known company name and an existing marketing strategy. In certain cases the market can be so full that no new players can enter. Example, the United States airline industry – the landing lots in the USA have been divided between the existing airlines. There are no new plots available for the newcomers. Thus the air service liberalization in the USA actually does not allow new entries, if not by merging with the existing companies.

Another factor concerned with the speed is the wish to acquire R&D, technical knowledge, local licences, brands, and supply and distribution networks of the company. The author agrees that if done in a classical way by establishing a new company and then undergoing the process of licensing, finding suppliers, etc., it would require a very long time and investment.<sup>20</sup> Thus companies are cutting the investment costs associated with learning costs. If the nowadays situation is compared with 30 year old history, then one can see that the length of product innovation circles has been cut in half. This makes an immense pressure on competition, and companies have to make the R&D investments profitable by selling fast and on the global scale.<sup>21</sup> Also the technological superiority and innovative lead are no longer the major factors of success. The author believes that the development of local networks can be as advantageous as selling on the global scale, if the market player is a monopolist.

Transport costs have decreased considerably. This is mostly due to the liberalization and deregulation, as well as due to the uniform standards and innovative logistics concepts. This has lead to a transport cost reduction of up to 90% in the last 20 years.<sup>22</sup> Also freight transportation costs have decreased after privatization. As a consequence, the place of production depends almost only on production costs.

As there is a considerable reduction of transport, telecommunications and production costs, now the new tendency is to gain a dominant position by marketing.

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<sup>20</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*, The Hague ,Kluwer Law International, 2003, P.29

<sup>21</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*, The Netherlands, Springer, AH Dordrecht, 2005, P. 45

<sup>22</sup> Ibid., P. 47

More and more often, companies use similar marketing strategies and advertisements all over the world as consumers are getting used not to having country specific advertisements. This also means a reduction of marketing costs and less expensive entering in the new markets.

According to Voigt&Schmidt <sup>23</sup>, nowadays the competition within the market is substituted with the competition for the market. These authors also claim that it is easier for newcomers to enter markets, though, it should be mentioned that market experience is still a good competitive advantage also for the older market players. Cost reduction is achieved mostly due to the policy changes (liberalization and deregulation) as well as due to purely economic changes that are mainly concerned with technological progress. Also the business organization itself – value chain- has been decomposed for cost reduction, and businesses are now organized in many small parts around the world.<sup>24</sup> The author believes, that a new tendency to create bigger and more concentrated enterprises can be seen, as that reduces time pressure and assures quality control at a more high level. The introduction of international standards that are assured by monitoring has led to the situation that the principle of origin is no longer important. This creates a much tighter competition that is primarily concentrated on the price.

The M&As carried out in the light of globalization is mostly procompetitive – they increase productivity and/or competitiveness. It also helps to carry out corporate control and ensure shareholder interests.<sup>25</sup>

Apart of what has already been said, it is important to note that the value of a merged organization is no longer the sum of the worths of the previously existing two separate entities. Unity gives added value to the enterprise and boosts its price in the market.

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<sup>23</sup> Voigt S., Schmidt A., *Making European Merger Policy More Predictable*, The Netherlands, Springer, AH Dordrecht, 2005, P. 46

<sup>24</sup> Ibid., P. 47

<sup>25</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*, The Hague, Kluwer Law International, 2003, P.42

### **1.2.2. Merger and acquisition types**

Types of mergers and acquisitions are similar: horizontal, vertical and conglomerate. The horizontal M&A is carried out within the same industry. The vertical M&A is usually in a supplier-client or buyer-seller relationship. The conglomerate M&A is between companies operating in different industries that have unrelated activities.<sup>26</sup> Merger activities can be divided in pre-merger activities, merging and post-merger activities.

It can be said that there is a smaller risk for those mergers and acquisitions that are carried out in horizontal level and that affect small or medium companies. The bigger the company and the more the competencies of the new company differ from the acquirer's company the bigger the risk of failure.

### **1.2.3. Risks and catalysers of success**

When analyzing tendencies in global market, there is an increasing trend of unsuccessful mergers and acquisitions which means that after the deal the shareholder value decreased. Reasons for failure are diverse. Failure is more probable when the acquirer buys a company that diversifies from their core competency. The risk is even higher in international deals carried out in countries where the acquirer has not operated before. Other reasons for failure are, for example, slow integration of the acquired company, insufficient attention to social and culture factors, etc.

With no doubt, mergers and acquisitions always bring along considerable risk which should be faced in operational, social and cultural levels. Generally, the risk is considered to be controllable if the acquired company does not bring more than 20% to the actual revenue base. The primary objective of mergers and acquisitions should not be the cost reduction itself. It is even more important that the acquired company

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<sup>26</sup> Wilson J., *Globalization and the Limits of National Merger Control Laws*, The Hague, Kluwer Law International, 2003, P.30

allows improving the growth prospects. In some cases the company that is being acquired can have debts, thus the acquirer has to face additional financial risks. Most of the successful acquisition stories include the cases when the acquired company complements the core capability of the acquirer, when it gives additional market share or strengthens the position in the existing market. The author agrees that very often small or medium enterprise mergers are more successful than mergers of large companies.<sup>27</sup>

According to MacDonald<sup>28</sup>, there are three major challenges in international projects that are associated with high risk – the co-existence of national cultures that creates unique problems of communication and different ways of seeing objectives; physical distance especially when a decision has to be made about alignment of purpose with the headquarters; environment scanning or in other words the inability to predict trends in economic, social/political environment.

There are numerous challenges that mergers and acquisition have to face, for example, culture and workforce integration, dealing with new customers, information continuity, and credibility in the eyes of shareholders. And even if all the challenges are of a big importance, according to a research carried out in 2004, culture was ranked the most challenging issue in M&A's.<sup>29</sup> It is also very interesting to note that the participants of the merger very often overestimate their ability to manage the mergers and all the problems that arise in the process of merging.

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<sup>27</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

<sup>28</sup> MacDonald D. "Intercultural Effectiveness as Competitive advantage in Global Business". *Canadian Manufacturers and Exporters Magazine*, No.5, 2005, P.15

<sup>29</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

In the nowadays fast and changing environment, time factor is the major catalyst for risk reduction. Time is also a challenge as all the actions should be carried out very fast so that the passage is less painful.

According to Gardner<sup>30</sup>, there are divergences in the organizational cultures of the companies and as a consequence there is a risk of conflicts that may prevent merged organizations from realizing efficiency gains. The author agrees that companies considering takeovers typically underestimate the extent and costs of conflicts and therefore overestimate the total value of the merger or acquisition.<sup>31</sup> The conflicts usually arise in the domain of communication between the merged companies.

The workforce is one of the core elements in mergers and acquisitions. The more efficient the time frame, the smaller the employee confusion. Generally, employees are concerned about all changes in the company, they fear about their position, possible redundancies, and about the new order in the enterprise. Thus human resources are one of the risk factors and should be in the very centre of attention. There will be cases when the workforce redundancy will be inevitable and thus it will be seen in as a problem. In other cases employees may be seen as the main asset of the deal and then they will be of major concern for the acquirer who will try motivating them. The latter case is looked upon in this research. It is also very important, that employees are introduced to the new corporate culture, values and behaviour.

According to Jonathan Gardner<sup>32</sup>, there are several common problems that cause M&A failure:

- The acquirer did not thoroughly understand the target company;
- After the acquisition, the acquirer introduced an inappropriate organisational chart upon the target company;

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30 Gardner J. "The Role of Post-Acquisition Integration in Merger Performance". *Watson Wyatt M&A Insights*. No.4, 2004, [online, 15.02.2008.] Accessible online at: [http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004\\_05\\_02.pdf](http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004_05_02.pdf)

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

- The acquirer used ineffective management incentives, and employees did not understand the new compensation structures;
- The integration phase was not well planned;
- Culture clash that caused decline in employee performance and customer satisfaction;
- Very different management styles (bureaucratic/laid off style clash).

Culture conflicts are one of the most important risk factors. It has to be noted that national/domestic mergers and acquisitions are less risky than transnational mergers. The closer are the cultures of the companies involved in the deal the smaller the risk. Also the language similarity or difference is a risk factor that affects communication problems.

The merger and acquisition is successful when there is a mix of achieved growth and meeting the financial targets; maximized people potential and managed risk.<sup>33</sup> The author believes, that this ideal mix is very hard to achieve but is certainly a goal to strive for.

#### **1.2.4. Merger and acquisition team**

Due diligence process should include important culture specific information about the country culture as well as about corporate culture. The principal objective is to evaluate the target and to evaluate the hidden information about the culture specificity. This could include such questions as – is the workforce tending to serve long periods or is there a high turnover of staff? What are the motivation aspects? How trustable are the partners? How should the negotiation be carried out – formally or not? The more the acquirer culture is differing from the local culture, the more attention is to be paid to these issues.

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<sup>33</sup> Gardner J. "The Role of Post-Acquisition Integration in Merger Performance". *Watson Wyatt M&A Insights*. No.4, 2004, [online, 15.02.2008.] Accessible online at: [http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004\\_05\\_02.pdf](http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004_05_02.pdf)

According to Hofstede, the international or intercultural negotiations have 5 basic characteristics: 1) there are two or more parties that have different interests; 2) common will to agree because of the possible future benefits; 3) initially unexpected result; 4) communication between parties; 5) negotiators have link to control and decision making structures.<sup>34</sup> Negotiations can be affected not only by the culture of the contracting parties but also by personalities of the negotiators as well as by the place and conditions in which negotiations are organized and the working language. In the negotiation process it is also very important to separate people from the problem, focus on interests and not positions as well as use as much objective criteria as possible. The author believes that mutual respect is an integral part of a negotiation process; both parties should feel to be at the same level and not be intimidated by the strongest counterpart.

The acquisition process is carried out by a group of individuals. The number of people involved depends on the scale of the acquisition or merger. Usually the core competencies the team has to cover are management function that is responsible for the business development, meeting objectives, due diligence thus these people should be trained about culture difference issues; negotiators that plan, execute and follow-up the negotiation process, attorneys that deal with contracting and employment matters; accountants that check in details expenses and resources; financial managers and others varying from transaction to transaction and human resource experts that deal with workforce planning and integration. In recent mergers a new figure has been introduced in the team – the culture manager. His main tasks include the organization of cultural training as well as assisting all merger related activities where culture differences may cause problems. This shows that the history of unsuccessful mergers and acquisitions has been analyzed and that companies are trying to avoid known risks.

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<sup>34</sup> Hofstede G. *Culture Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations*. Thousand Oaks: Sage Publications, 2000, P.435

According to MacDonald<sup>35</sup>: “Global organizations require three groups of specialists: business managers, country managers, and function managers. For successful intercultural management, a unique fourth kind of manager is also needed – specialized leaders with global mindset skills who can manage the complex interactions between the areas of the company.”<sup>36</sup> The author believes that it is more important to provide culture training in order to create understanding about culture issues from the part of the management. If the training is not done, management might be less disposed to listen to the advices of the culture manager.

The merger and acquisition team reports to the acquirer as well as to the counsel of shareholders.

### **1.2.5. Market concentration**

Global market concentration is raising and this is mainly due to the transnational M&As. The current mergers are carried out due to strategic and economic motives, such as “acquiring the scale and resources to compete at home and abroad, protecting and enlarging market share, reducing competition and attaining greater pricing power, in what large corporations see increasingly, often, primarily, as a global market.”<sup>37</sup>

Though a general trend is in cost and price reduction that results in an inferior quality, also the concentration has adverse effects on local and global economies.<sup>38</sup>

The author believes that market concentration in production leads the companies to be more procompetitive as well as more cost-effective, however, in case of a larger crisis; market concentration is a major disadvantage.

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<sup>35</sup> MacDonald D. ”Intercultural Effectiveness as Competitive advantage in Global Business”. *Canadian Manufacturers and Exporters Magazine*. No.5, 2005, P.15

<sup>36</sup> Ibid., P.17

<sup>37</sup> Wilson J. *Globalization and the Limits of National Merger Control Laws*”. The Hague, Kluwer Law International, 2003, P.32

<sup>38</sup> Ibid., P.42

From the distribution point of view, the author believes that market concentration gives more power to dictate the trend and gives generally more power over the market.

### **1. 2.6. Leadership and it's role in integration**

Leadership or in other words the management team is one of the vital and crucial points for M&A success. It can be argued that leadership is especially important during the integration phase and in the post-merger period.

The author agrees that for gaining success in M&A, leaders should be put in the right roles; they should ensure the fit between the management and the desired organizational culture and business strategy for integration of the merging companies.<sup>39</sup> Leadership has the aim to be visible and get the new organization to work together – share the same corporate values and styles as well as believe in the goals of the organization. It is the management team that has to be very well educated in intercultural interaction and be aware of the differences in national and corporate cultures in order to face the situation properly and predict and avoid possible conflicts.

When creating a new entity as a result of M&A, creating a new, unique culture is the best practice. As in difficult situations like those of global mergers people become more nationalistic and usually try to convince that their way of doing things is the best, then it is far healthier to create a brand new management team. The nationalistic tendency is especially true when following the actions of local managers who often fall back upon national culture in order to explain values and behaviours in the organization. Sometimes differences in national culture are used as an excuse whenever an inappropriate behaviour occurs in the organization.<sup>40</sup> Thus it is very important that the acquirer and the new management team understand the target

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<sup>39</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

<sup>40</sup> Ibid.

company – evaluate and introduce an appropriate organizational structure rather than impose the theoretically best solution.

If during mergers and acquisitions one can note some changes in employees, it is the management that is changed in most of the cases. Old management tends to lobby the interest of the old part of the company and is often unable to see the new entity as a whole. There is also a tendency that management of the two cultures can not find a common ground for communication. Though English is the global language of business, in many parts of the world it is still poorly spoken among the management.

It is important that the management of the new organization is real representatives of the culture the company stands for. They should share the values, stand for them and bring positive communication in the enterprise. If the old management is unable to adapt to the new situation, change is the fastest and often the best choice. The new management enthusiasm is needed for affronting the problems and seeing the situation in a brighter light, showing the lead and explaining the values and objectives the new culture is about. Thus the new management team should be capable of leading the both sides of the enterprise and it is relatively easier as they have no prior experience of the two old entities.

Good leaders help overcoming clashes and they are key people for aligning the old corporate cultures in a new one; they face employee issues. These figures are visible and have a prominent role in the process of change, they are like instruments used for introducing new business strategies. According to Able<sup>41</sup>, leadership's action, words, beliefs and behaviours have to address three contexts – national culture, organizational culture and the individual employee's background, values and beliefs. Even if it is agreed by everyone that leaders are crucial in M&A success, there are no quantitative results that would affirm this conclusion.

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<sup>41</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

According to Able<sup>42</sup>, there are several leadership characteristics that help gaining success in M&A:

- Leadership sets the right priorities and creates positive business discipline and momentum;
- It fulfils employment strategy – raises motivation, confidence and comfort even under the conditions of culture shift;
- Leadership inspires the sense of coherence and objective, community and trust that helps employees to focus and be engaged in their job;
- Leaders should be introduced in an early integration process (pre-merger period), they should be well trained;
- Leadership is the connection between employees and owners, thus it has to carry out onboarding activities;
- Good leadership focuses on three key areas of M&A – due diligence (leadership research); integration preparation (leadership strategy, assessment and selection in the pre-merger period); integration (executive onboarding);
- Leaders have to be understood in three levels –national, organizational and individual.

Leadership is the part of the company that has to evaluate efficiency and productivity as well as intervene if the expectancies and provisions are not met. Experts have estimated that up to 90% of employee behaviour is determined by the way how leaders attend to it. It is also important to note that in the periods of change employees and society look at the behaviour of the leaders. Employees are looking for guidance about how to react and behave; they seek for motivation and focus, as well as they try to find sense of community and purpose from the management. Thus the perception of leaders should be positive, inspiring, they should be believed to be caring, open and ready for a dialogue. If employees feel this sustain from the management, they are more likely to undergo all the transitions in a more peaceful and compliant way. Leadership creates the necessary level of commitment, confidence, engagement and

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<sup>42</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

comfort during all the transition period.<sup>43</sup> The author believes that only leadership can obtain the goals previously mentioned.

### **1.2.7. Communication strategy**

For achieving all the goals described, leadership has to create its own communication strategy with the aim to reduce fears, rumours and stress among employees and society members. The communication strategy is the whole consisting of external and internal communication. The communication should be done by the representatives of the senior management that have a higher level of credibility and confidence as well as in cooperation with the human resource management that have closer relationships with the employees. If the changes of the M&A do not cause redundancies, also the highest representatives of the trade unions can be introduced in the communication process in order to facilitate the changes and raise awareness.<sup>44</sup> To author's mind, it is especially important in the countries where trade unions have a very strong position. Employees tend to trust more the trade unions rather than the management. Thus communication from the part of the legal defence of their rights raises trust and positive mood.

There is no universal approach of the best communication strategy. The intensity of the communication as well as the most important communication speakers has to be decided in every case separately.

In order to make the creation of the communication strategy easier and more realistic, management can organize meetings with the employees from the both parts and talk

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<sup>43</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

<sup>44</sup> Pande A., Sandeep K. Krishnan. "Knotted forever". *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

over the concerns, problematic issues and general atmosphere in the company. This is very useful and gives the information directly from the employees to the management with no intermediaries. It is also a sign of caring from the part of the management which thus expresses its concerns about the employees and the willingness to sustain a dialogue. In the beginning the employees may be reluctant towards the dialogue and be afraid as well as not mature to speak about the issues. Thus it is the management that with its communication has to encourage such actions. Free atmosphere is crucial to mutual respect and trust which leads to a successful result. To encourage the employees to speak out, management can organize meetings with larger groups of the employees. It is important that the both groups are represented – both the old and the new organization. Knowing the employees better is also important for future steps of the management. If necessary also anonymous reporting may be introduced in cooperation with the human resource management.

Communication strategy has to be present in all periods of the merger, it has to be well planned and concentrated on all the problematic issues and give precise, efficient and up to date information about the events affecting the companies. It is also very important to note that the internal and the external communication strategies have to be coherent and bring similar messages. If the information differs considerably, rumours will spread out and will decrease the credibility of the company. In case of the internal communication the information will be more specific and for inside use only. The author agrees that well planned communication strategy will also rise culture awareness and expand the knowledge of corporate practices and values.<sup>45</sup>

### **1.2.8. Role of human resources in M&A**

Employee welfare is one of the most important issues during mergers and acquisitions. If the employee issue is not faced immediately with an extensive communication, it can cause a drop of efficiency, decrease of motivation as a consequence of rumours.

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<sup>45</sup> Pande A., Sandeep K. Krishnan. "Knotted forever". *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

This is not only a problem for human resource managers but is also a financial shock for the organization in the delicate period of change that can cause a failure of the M&A.

During the periods of change, employees tend to take the events personally. As changes many times bring shortenings of the personnel, affected employees start looking for other employment possibilities in the market. Employees feel concerned about downsizing that is the major source of stress. Also the unknown practices and styles of the new HR management cause stress. It is even more so when the HR management is from a different culture and thus are even less predictable.

Employees in the most of the cases feel unsafe about the lack of knowledge about the new environment and the new organizational structure.

Organizational structure is sometimes dubbing in the first merger period, thus creating the sense of uselessness and confusion about performing tasks and responsibilities. Employees fear changes in teams, job profiles, and compensation schemes, working in new departments; they feel unsafe about their career path, future opportunities, social guarantees, pension schemes and job security in general. Grading systems are also of a major concern for employees. The HR management role is very important in this process both in discovering and solving the problems of the new system. Thus dialogue with the employees and mutual understanding is crucial. The work related insecurity can happen not only in employee level but also in old-management team level. This is a high risk issue affecting all the structures of the organization.

Thus the human resource management is facing serious challenges. The HR management has to choose the strategy affecting employees, remuneration system, compensation packages, performance appraisal system, employee deployment, knowledge development and other issues.<sup>46</sup> The author believes that it is also very

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<sup>46</sup> Pande A., Sandeep K. Krishnan. "Knotted forever", *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

important that employees feel being appreciated and encouraged by the management – that is the best way to keep them loyal to the organization.

During international mergers and acquisitions, employees are exposed towards the new culture that states new values and beliefs, new ways of seeing the objectives. Employees face a situation where they have to abandon their old culture and accept the new one that is unknown. This is another motive for stress that makes employees feel hostile and not comfortable thus causing less commitment. They find that the new organization no more has the beliefs and values of the old organization which affects their feelings of identity loss and anger. Common trend is also that the acquirer feels superior with respect to the acquired company. In this case it can cause rejection towards the dominating culture. If in the very beginning employees are affected by culture shock, then later on they create their own opinion about the new culture and depending on their experience, the new internal environment is created.

According to researchers, the process of change in the case of M&A is very often traumatic for the employees and the impact on their state of mind can range from anger to depression. It has also been found that at least two hours of productive working time per employee per day is lost during M&A activity in the organizations.<sup>47</sup> Employees often turn to trade unions and local authorities for sustain.

The HR management policy should be egalitarian with respect to employees of the both acquirer and acquired company. If employees feel equally appreciated, the rules seem to be the same for everyone and thus there is an increase in trust and belief in the organization. It also important to note, that the remuneration, even if equal for all the employees, should not be inferior to the salary level prior to the M&A to take place.

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<sup>47</sup> Pande A., Sandeep K. Krishnan. "Knotted forever", *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

According to Pande and Krishnan<sup>48</sup>, the human resource management has to carry out actions in the following domains:

- Training managers on the nature of change;
- Technical retraining;
- Family assistance programmes;
- Stress reduction programme;
- Meeting between the counterparts;
- Orientation programmes;
- Explaining new roles;
- Helping people who lost jobs;
- Post merger team building;
- Anonymous feedback helpline for employees.

### **1.2.9. Pre-merger period strategy**

The decision to carry out an M&A is usually well matured and well planned. Before the merger, enterprises involved usually have a lot of positive attention from all the parties involved as well as from the mass media. The attention is mostly attributed to the increase in share value and enforcing the market share, valuing the assets, determining the price and due diligence.<sup>49</sup> Company expansion is usually seen as an evidence of success. There is an overall enthusiasm about the benefits that the M&A would bring. However, the attention is mostly focused on financial concerns and market share that are predictable rather than on those issues that could cause failure. When the financial situation is clear and the deal can be done, starts the human experience in the midst of change that is emotional, non-linear and often

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<sup>48</sup> Pande A., Sandeep K. Krishnan. "Knotted forever", *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

<sup>49</sup> Gitelson G., Bing W.J., Laroche L. "The Impact of Culture on Mergers and Acquisitions". *ITAP International*. [online, 15.02.2008.] Accessible online at: <http://www.itapintl.com/mergersandacquisitions.htm>

irrational.<sup>50</sup> The author believes that even irrational matters can and should be explained to get a better understanding of the partner organization.

The leadership in this period is very often unaware of the cultural differences that may impede obtaining the result. It can seem strange and almost unbelievable in the beginning that people living and working in different cultures or countries react to the same situations differently.<sup>51</sup> Also organizational change can be introduced differently in different countries with various balances of responsibility. One could argue that the aim can be the same but the way various cultures achieve it is different. Thus the key of this period is due diligence.

Pre-merger period is the most suitable period for management training of cultural awareness that includes their own stereotype and prejudice about the other culture elimination and learning about the partner values both cultural and corporate in a precise and not general way. The aim of the training is not only understanding the other part but also broadening the view of the management team that should as a consequence become more open and realistic about the interactions with the other part.

The training should eliminate the mythological perception of their partners and put them on a common ground, aware and respectful of differences and ready to act together.

The training includes theory about the perceptions, values, attitudes and traditions both corporate and national of the both parties, as well as practical interaction that can be realized by building of mixed teams, simulation of negotiation and practical trainings discussing the actual experiences between the parties involved. The aim is to get a connection between the parties with no fear and with a deeper understanding of both sides.<sup>52</sup> The training teams often tend to have only members from one side of

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<sup>50</sup> Gitelson G., Bing W.J., Laroche L. "The Impact of Culture on Mergers and Acquisitions". *ITAP International*. [online, 15.02.2008.] Accessible online at: <http://www.itapintl.com/mergersandacquisitions.htm>

<sup>51</sup> Ibid.

<sup>52</sup> "Intercultural Challenges of a Transatlantic merger". *Kultur & Management*. [online, 30.01.2008.] Accessible online at: <http://www.kultur-und-management.com/artikel1.pdf>

the M&A and use their common language rather than trying to communicate with members of the other part. However, it is the competency of the training manager to unite and interconnect the teams.<sup>53</sup> The author believes that also the team personalities are very important in gaining connection.

When management has become more exposed to cultural differences, it is the right time for internal communication. It is crucial that employees of the new organization feel sustain from the part of the management. Employees should be informed about all the changes that may be coming and affecting them. As a rule, the information given is describing the situation in a realistic way. The intercultural communication should be provided in an understandable and acceptable way for the public concerned with the aim to build trust.

Inside the company that is to be acquired the most common feeling is anxiety as changes are rarely seen as positive. The anxiety is mostly concerned with the possible redundancies, employee shifts to new positions, worsening of financial and social terms, necessity to adapt to new, unpredictable leadership. Employees are rarely concerned about the overall information given to media or spread out by the management; they are very much concerned about their own, private consequences the deal would bring. Often during mergers and acquisitions people are turning to their trade unions in order to get support and assistance. There is a general misunderstanding about the old management and their attitudes and values and the new objectives that are not seen as natural. In order to face this, temporary structures (departments and teams) may be introduced. Their objective is to lead the employees from the old structures to the new.<sup>54</sup> As usually there is a lack of information, worries and negative rumours spread out and cause decrease in work efficiency and thus cause losses. In this case it is in the interests of the management to face the situation as fast as possible in order to avoid further losses. This is among the riskiest moments of all

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<sup>53</sup> “Intercultural Challenges of a Transatlantic merger”. *Kultur & Management*. [online, 30.01.2008.] Accessible online at: <http://www.kultur-und-management.com/artikel1.pdf>

<sup>54</sup> Gitelson G., Bing W.J., Laroche L. “The Impact of Culture on Mergers and Acquisitions”. *ITAP International*. [online, 15.02.2008.] Accessible online at: <http://www.itapintl.com/mergersandacquisitions.htm>

the merger process that can be overcome only by fast reaction and efficient communication strategy that eliminates anxiety and rumours.

Pre-merger period is also the right time to carry out comparison and assessment of both cultural and organizational differences. This includes assessment of roles of leaders in the both organizations, life cycle of the organization and management styles.<sup>55</sup> The author believes, that in every specific case, companies can introduce additional assessment according to their specific needs.

### **1.2.10. Merging period strategy**

In successful businesses, especially in the banking sector, 20% of activities account for 80% of income. Thus this is the time when most of attention should be focused on those 20%.<sup>56</sup>

Leadership's role is very important in this period. Leaders should strengthen the communication with employees, shareholders, customers and society and in the same time guarantee business growth.

This is the period when employees very often experience the so called culture shock after real connection with the new culture. The intensity of the shock is smaller if the cultures do not have particularly big differences and clashes. It can be huge if the backgrounds of the cultures involved in the mergers and acquisitions are very different. In this period employees should be in the centre of attention as they have the biggest impact on the success or failure of a merger or acquisition. Employees during this phase feel unsafe, frustrated and almost depressed. This is caused by the changes in the organizational structure, in their duties and due to the general changes happening in the company. If not properly approached, this can be a problem and cause a decrease in productivity which affects financial results of the M&A.

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<sup>55</sup> Pande A., Sandeep K. Krishnan. "Knotted forever". *Human resource management in Mergers and Acquisitions*. [online, 20.02.2008.] Accessible online at: <http://stdwww.iimahd.ernet.in/~sandeepk/merger.pdf>

<sup>56</sup> Ibid.

### 1.2.11. Post-merger period strategy

The most important period after the merger is the first hundred day period. During this phase it usually becomes clear whether the new organization is viable and capable of growth or the deal was unsuccessful. The key word of this period is integration. The financial success of the merger is a quantitative representation of the environment inside the organization.

The author agrees that intercultural dynamics affect communication behaviour decision-making and cooperation, and thus it deserves particular attention.<sup>57</sup> The importance of different cultures with their value system should not be reduced only to stereotypes and should not be dealt with neglectfully. In fact, the post-integration phase is the most sensitive as it often causes lots of conflicts and thus requires the most of attention.

If the beginning of a M&A process usually creates a lot of media attention, shareholders calculate the value the merger would bring and the overall atmosphere is more than positive, then in post-merger period this is no longer so and all the parts involved have to limit their losses.

Even though it is a common trend to believe that the acquiring organization is more stable and less disposed to change, it is a myth. In order to obtain a satisfactory result, all sides involved in the process have to undergo considerable changes, clashes and transformation that usually take place in the post-merger period.

The acquirer prior to the deal has set the objectives and strategies that after both parties have to pursue.

In the post-merger period control is the keyword. After introducing the changes, leadership should create new control mechanisms and ties in order to make all the process more predictable and guidable. As both companies have undergone

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<sup>57</sup> “Intercultural Challenges of a Transatlantic merger”. *Kultur& Management*. [online, 30.01.2008.] Accessible online at: <http://www.kultur-und-management.com/artikel1.pdf>

considerable transformation it is the control mechanism that allows aligning changes with strategic goals. However, it is also true that control systems should not be only centralized. There should be certain autonomy in the target company's management team that can intervene in less important or culture specific themes. Removal of the target company's management control could also have negative consequences on motivation and create additional clashes in the organization. This is mostly due to the fact that leadership with no control is damaging both to the performance of the management and to the respect from the part of employees.

If the internal communication during the previous phases of merger has been carried out in an appropriate way, employees should at this stage be aware and used to the new situation. It is important that after the stabilization of the company and in the best case even earlier, employees are informed about their pay, social benefit and reward programmes. Success is much more likely when these conditions are uniform across the organization. As mergers create value, this is mostly possible. It is unnecessary to note that deterioration of work conditions will most probably cause a defeat. In the post-merger phase, when people are more relaxed and have lost much of their anxiety, they tend to be curious about the other employees and their working conditions. Thus uniform pay and other scheme standards is a good background for stable growth and development. It is also an indispensable ground for fostering value and belief in the objectives of the organization.

From the culture point of view, this is the period when culture alignment has to be achieved; a new corporate identity and corporate communication are tools that express the new company in public. In this period leadership has to continue being positive, inspiring and it has to communicate the shared sense of purpose, coherence, community and trust, which is of a high importance for employee engagement during this phase. Employee engagement can be characterized as the willingness and the

ability to contribute to the company's success, it is the extent to which employees put discretionary effort into their work.<sup>58</sup>

### 1.3. Culture impact on mergers and acquisitions

#### 1.3.1. National and corporate culture

There is no unique and specific definition of culture. The word "culture" derives from the Latin verb "colere" and means to "cultivate" – the capacity to work the land. However, nowadays the notion of culture has broadened and refers to important human activities that have symbolic structures. The keywords that describe culture the best is that it is a process that is learned, shared, symbolic and perceived as natural. Culture historically has originated in response to natural forces, geographical and scientific discoveries that have led to the creation of values and attitudes that guarantee survival of the society.

Trompenaars gives the following definition of culture:

*"Culture is man-made, confirmed by others, conventionalized and passed on for younger people or newcomers to learn. It provides people with a meaningful context in which to meet, to think about themselves and face the outer world."*<sup>59</sup>

Culture is the pattern common only to humankind thus distinguishing it from the animal world. According to Hofstede:

*"Culture is the collective programming of the mind that distinguishes the members of one group or category of people from another"*<sup>60</sup>

The above mentioned definitions can be applied both to national cultures as well as to corporate and other types of cultures. According to G. Hofstede, human mental

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<sup>58</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

<sup>59</sup> Trompenaars F. *Riding the Waves of Culture: Understanding Cultural Diversity in Business*. London, Brealey, 1993, P.24

<sup>60</sup> Hofstede G. *Culture Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*. Thousand Oaks: Sage Publications, 2000, P.9

programming done by culture has three levels – 1) universal- characteristic to all human beings; 2) collective – relative to national culture and expressed by language, common to members of one society; 3) individual level – inherited genetically and with little effect from the culture.<sup>61</sup> For doing business, the collective level is the most important as it involves everyday communication and behaviour that is affected by culture programming. No doubt, different groups of society have their own specific and additional components of mental programming related to their educational level, occupation, gender. Even if belonging to the same national culture, some groups of people can share mental programming that others don't understand.

Anthropologists and experts of organizational behaviour describe culture as the way how members of groups understand their world and their place in it. Organizational culture can be best described as the pattern of actions, words, beliefs and behaviours that are shared by the members of the business organization. It can also be called the DNA of the organization. Organizational culture, from the leadership point of view, is all the processes necessary for realizing priorities – objectives, measures, rewards, controls and also ways of reaction to critical incidents.<sup>62</sup> In other words - culture creates the field of action and the roles that leadership uses.

According to Able<sup>63</sup>, the most significant corporate culture dimensions are:

- Criteria for employee recruitment, promotion, retirement and quitting;
- Formal and informal socialization;
- Traditional procedures and systems;
- Organizational structure and design;
- Physical design of the work related space;
- Stories and myths about key people and events in the history of the company;
- Code of conduct, internal ethics, beliefs and motives.

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<sup>61</sup> Ibid., P. 2

<sup>62</sup> Able M.R. "The Importance of Leadership and Culture to M&A Success". *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

<sup>63</sup> Ibid.

It could be argued that national culture is an integral part of the corporate culture though very often corporate culture is copying many of the patterns and behaviours used in the national culture. In this light, corporate culture and national culture have the same impact on the life of the organization. It could be said that organizational culture is shaped by the characteristics of the national culture – this also includes the objectives that can be highly nationalistic in their nature. From the employee point of view, organizational culture makes it clear – what is important and what actions are appropriate in order to succeed.

### **1.3.2. Culture differences and M&A**

There is no one answer whether the culture differences have only a bad or a good impact on the results of the mergers and acquisitions. Though it is a common trend to see culture differences as a factor having negative impact, researchers Cooper and Finkelstein<sup>64</sup> note that “While theoretical models of the role of culture in M&A emphasize the dark side of cultural diversity, practical research indicates that cultural differences, under some conditions, may be an asset rather than a liability in M&A. Cultural differences may actually have a positive effect on aspects of the socio-cultural integration process, such as the cultural sensitivity and tolerance exhibited by the acquiring firm managers. In contrast, organizational culture differences were generally found to have a negative impact in domestic settings.”

Historically, organizational studies were more concentrated on the idea that there must be the best way of doing things worldwide, a universal model that could be applied everywhere. However, over time this approach resulted to be unsuccessful and researches on local culture differences gained importance.

Cultural differences can be seen in light of a corporate or organizational culture as well as in the light of national culture. Thus the cultural differences are one of the most important and most delicate challenges M&A has to face especially in the post-

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<sup>64</sup> Cary L. Cooper, Finkelstein S. ”Advances in Mergers and Acquisitions”. *Elsevier Science & Technology*, 2005, P. 53

integration phase.<sup>65</sup> Many times the management team gives poor attention to these differences thus risking a disastrous result. Studies on cultural conflict carried out by Chatterjee, Lubatkin, Schweiger and Weber discovered that there is a negative relationship between cultural differences and stock market performance. They also discovered that the deletion of decision-making autonomy from the acquired management team had a highly negative and dysfunctional effect and was also associated with inferior shareholder returns.<sup>66</sup> According to Pietro Morosini: “The impact of these differences is unambiguous – misunderstood national culture differences have been cited as the most important factors behind the failure rate of global alliances.”<sup>67</sup> The contact with a new culture during mergers and acquisitions often causes the so called culture shock. Sometimes managers underestimate the coordination problems associated with the merger that are largely created as a consequence of a culture clash. And thus the differences in culture significantly affect merger performance.<sup>68</sup>

Mostly culture difference impact in a corporate reality can be seen as values and communication style. Mergers and acquisitions is a source of stress for all stakeholders and cultural differences is additional source for stress that creates uncertainty about how things should be carried out and whether all the parties involved comprehend the situation in the same way. The author agrees that in this

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<sup>65</sup> “Intercultural Challenges of a Transatlantic merger”. *Kultur& Management*. [online, 30.01.2008.] Accessible online at: <http://www.kultur-und-management.com/artikel1.pdf>

<sup>66</sup> Gardner J. ”The Role of Post-Acquisition Integration in Merger Performance”. *Watson Wyatt M&A Insights*. No.4, 2004, [online, 15.02.2008.] Accessible online at: [http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004\\_05\\_02.pdf](http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004_05_02.pdf)

<sup>67</sup> MacDonald D. ”Intercultural Effectiveness as Competitive advantage in Global Business”. *Canadian Manufacturers and Exporters Magazine*, No.5, 2005, P.17

<sup>68</sup> Gardner J. ”The Role of Post-Acquisition Integration in Merger Performance”. *Watson Wyatt M&A Insights*. No.4, 2004, [online, 15.02.2008.] Accessible online at: [http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004\\_05\\_02.pdf](http://www.watsonwyatt.com/asia-pacific/taiwan/news/pressrelease/2004_05_02.pdf)

situation there is a great wish to interpret things stereotypically simply to avoid fear.<sup>69</sup> And if this has been the case from the very beginning of the process, the acquired part may be misled through the all communication process and is not participating in it as a full member. This may create conflict situations in the future and can cause the inability to see common goals and share common values. In the situation where all the members involved are not put at the same level, the tendency of seeing the newcomers as inferior may arise. This causes the drop in efficiency both in management team of the acquired organisation and as a consequence also in other employees.

Absorbing newcomer in the existing corporate environment is culture insensitive approach and will not have a tangible and long-lasting result. The acquired organization, however, should not be passive. It should learn how to integrate in the new situation as well as be open towards new corporate values and rituals. This process that happens from both sides can be called acculturation as it is the path of mutual adjustments.<sup>70</sup> The author believes that another important aspect that is one of the fundamental logics of business is the necessity to achieve a “win-win” situation. If one of the players is losing a substantial part of it without adding value to its activities, this will most probably lead to unsuccessful result. The interest and a need to merge from both sides are crucial for success.

The goal of a merger or acquisition from the culture point of view is to create a new and unique entity by fusing and integrating the old parts. This gets more and more complex, when the mergers are not only carried out in the neighbouring countries people have some knowledge about, but also in far distance regions people know nothing about.

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<sup>69</sup> “Intercultural Challenges of a Transatlantic merger”. *Kultur & Management*. [online, 30.01.2008.] Accessible online at: <http://www.kultur-und-management.com/artikel1.pdf>

<sup>70</sup> Able M.R. “The Importance of Leadership and Culture to M&A Success”. *Human Capital Institute, Towers Perrin*. [online, 16.01.2008.] Accessible online at: [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The\\_Importance\\_of\\_LeadershpFMTTVD\\_EF\\_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The_Importance_of_LeadershpFMTTVD_EF_Apr30.pdf)

It is very important to understand that culture differences also exist in the ways of communicating. People react to the situations differently in different countries. The working style itself differs and can be more bureaucratic or liberal, etc. Decision making processes differs considerably across the globe. Teamwork, leadership, visions and beliefs and problem solving differ. Organization changes are carried out differently and also the communication may break down only because one culture is more relationship oriented whereas the other is more task oriented. In one culture trust may be essential for building relationships in other the financial matters are above all - these are only some of the discoveries organizations might face. Time and space are perceived differently which may easily lead to misunderstandings about deadline or personal space. Thus understanding the culture means understanding the way others perceive the world and their own place in it.

In the context of mergers and acquisitions a new term has been created – cultural due diligence that is applied not only to individual leadership competencies, but also human resource systems and processes as well as management and planning cycles.<sup>71</sup> Cultural due diligence is not only in the interests of management, but also in the interest of employees, shareholders and customers.

### **1.3.3. Culture awareness**

From the culture theory point of view, the core of each culture- be it national or corporate is the opposition “we-them”. A continuous comparison of the both parts is a necessity for survival as well as a source of seeing “us” as something substantially better. The other part that is unknown or less known than our part is always seen as dangerous, unpredictable but not necessarily worse. Starting from the mythological way of seeing the world, humans have seen the distinction of “ours and theirs” and not the distinction of good and bad. In the context of mergers and acquisitions it is the human nature that makes this passage of unity difficult. However, deliberate and conscious movement towards seeing the unity and acting as one as well as leaving in

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<sup>71</sup> MacDonald D. ”Intercultural Effectiveness as Competitive advantage in Global Business”. *Canadian Manufacturers and Exporters Magazine*, No.5, 2005, P.16

the past the separate stories of the enterprises involved is the necessary psychological change that needs to be achieved in order to go on.

People involved in the business world are used to rely on logical and practical assumptions and analysis, such as financial analysis, accounting records, equity value, real estate value and others. Thus it is difficult to accept that the cultural domain that is much less logical and accountable can also have an effect on a perfectly planned deal. However, a deeper insight in these questions that may first be seen as issues can have a very enriching and positive outcome.

M&A is a very good reason to learn more about the partner culture and thus gain a broader life experience and personal growth, achieve additional creativity, sense for innovation, and learn about other ways of affronting diverse situations. If the organization starting from the beginning of the M&A process sees culture diversity as an advantage, it is more likely to gain success in line with enriching, positive emotions. Thus training in culture and intercultural communication should be one of the core strategies of the company, besides financial, corporate and other strategies. Financial gains can be seen as important as intercultural knowledge that not only brings more chances for success but also broadens the experience and the capabilities of the company.

Culture awareness can also be seen as a competitive advantage in the global market where interconnection is getting more and more concentrated. Understanding different ways of living and working is experience that once used by the company, may be easily adapted to the new and changing environment also in other regions of the world.

A corporate culture is high performing when the business aligns both internally and externally and supports the general and specific business targets. In such a way a successful organizational culture shapes the employee experience, which as a consequence impacts customer experience, business partner relationships and the most importantly – shareholder value.

### 1.3.4. Values in corporate context

One of the most important things when dealing with culture differences is value system. Humans share the common need of values as transcendent rules, however, as in every culture values are different there is a ground for conflict.

According to Nancy Adler: “Research has shown that cultural values affect corporate strategy and all forms of organizational behaviour, including selection and reward systems, superior/subordinate relationships, and group behaviour, communication, leadership, and conflict management styles.”<sup>72</sup>

Values seek answers to what is important, what is priority, who should be respected, who should be respectful, etc. The author believes that knowing the values of a culture gives also the answer to the question of the most efficient ways of motivating the employees. However, as values is a common treat to the whole of humanity, people are very often unaware that the values differ and that what is perceived in one culture as good and worthy is not necessarily the same in another culture. Thus conflicts that arise from seeing things and their importance differently are often value-based. Often people are not aware that the source of their misunderstanding and frustration is the difference in their value systems. Whenever discovering this, the problematic issues are often easy to solve. Problematic issues are usually seen as a clash between the opinions of the persons involved, however, very often; it is the matter or priorities based in the value system.

In the context of mergers and acquisitions it is important to be aware of value differences and achieve a common ground that is based not on the values, be it corporate or national, of the acquirer but of values that will be in the core of the new organization. The newly merged organization values will most probably be a mix of values that existed in the previous independent entities but they can also be newly made for the purpose of the new organization.

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<sup>72</sup> MacDonald D., ”Intercultural Effectiveness as Competitive advantage in Global Business”, *Canadian Manufacturers and Exporters Magazine*, No.5, 2005, P.15

### **1.3.5. Geert Hofstede and his theory of culture dimensions**

The comparative intercultural research and analysis has been developed in the second half of the 20<sup>th</sup> century. Geert Hofstede similarly to Fons Trompenaars is one of the most respected and inspiring researchers in this field and his works are mainly concentrated on culture differences and their impact on economic processes and with a special regard on mergers and acquisitions. His researches have been used in sociology, political science and many cross field researches. It also has to be noted that his researches are not aimed at finding the best functioning culture or to create an ideal model of a culture. At the very centre of attention of his research are the already existing cultures and their ways of functioning. He has not given any evaluation of a better culture or worse as culture differences for him are a priori good but they require a deeper understanding and culture awareness of people.

The author believes that his research helps discovering that different phenomena existing in the world such as bureaucracy, accountability, corporate structure are universal, however, the meaning and role each culture attributes to it, is very different. In the context of economics, according to the author, this means managing universal structure with the local reality.

Hofstede has classified the national cultures according to his own culture dimension classification that will be looked upon later. His quantitative research that consisted in more than 115.000 questionnaires was carried out in more than 50 countries giving a broad look at cultures. One of his most important researches was a result of IBM international employee attitude survey programme in the years 1967-1973 where he looked at 72 countries worldwide with the objective to encounter country differences and employee values.

Hofstedes works are grounded on his basic assumption that there are 5 culture dimensions common to all the cultures in the world those being:

- Power distance;
- Uncertainty avoidance;
- Individualism and collectivism;

- Masculinity and femininity;
- Long term versus short-term orientation.

The first four dimensions, according to his theory, are applied to Western societies but the long term versus short-term orientation is characteristic especially to the Eastern and more specifically – Asian societies that share a common perception of time that differs substantially of the European time perspective.

**Power distance** is a dimension of culture that shows how society deals with the human inequality. In business context it means the relationship between wealth and power. In a research context this dimension is used for describing employee fears to disagree with superiors as well as employee preferences of decision making styles.<sup>73</sup>

**Uncertainty avoidance** deals with the human fears about work stability and future as well as stress related factors. This dimension shows the rule orientation as well as the human acceptance of rules as a part of their daily routine.

**Individualism and collectivism** is most visible in the way people live in the society – in smaller or bigger groups. It also explains a connection between fast and slow society orientation to the economic development of the country.

**Masculinity and femininity** is mostly expressed through social value systems in the society. In feminine societies people are more concerned about the social and gender equality and environment whereas in masculine societies the attention is mostly concentrated on money, career and personal goals.

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<sup>73</sup> Hofstede G. *Culture Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations*. Thousand Oaks: Sage Publications, 2000, P. 79

## **2. METHODOLOGIES, ECONOMIC AND CULTURAL SITUATION OVERVIEW**

### **2.1. Methods used in the research**

The methods chosen by the author and used in the research were questionnaire and interview.

#### **2.1.1. Questionnaire about culture differences**

In the beginning of the research, the author got acquainted with the researches that had been previously carried out in the field. The result was the discovery that there was no bibliographical material concerning comparison culture differences of Latvians and Estonians. The Hofstede's research that describes many of the countries does not include Latvia or Estonia. Thus the author decided to elaborate her own questionnaire, based on Geert Hofstede's theory of culture dimensions, that includes power distance, uncertainty avoidance, individualism versus collectivism and masculinity and femininity. Additional factors of interest for the author were the tendencies of universal versus particular, groups and individualism, individualism versus universalism, culture attitudes towards environment and beliefs about corporate structure introduced by F. Trompenaars.

The questionnaire was divided in 8 subsections with the total of 56 questions:

- 1) Power distance that included 10 questions aimed at identifying low or high power distance of the culture;
- 2) Uncertainty avoidance counted for 11 questions and identifying the low or high uncertainty avoidance;
- 3) Individualism versus collectivism was made of 11 questions targeting at low and high individualism;
- 4) Masculinity and femininity included 14 questions aimed at identifying low or high masculinity;
- 5) Universal versus particular had two case descriptions followed by questions;
- 6) Groups and individualism with 4 questions;

- 7) Cultures and environment included 2 questions;
- 8) Organizational culture with one question. (See the Annex N.2)

The study is based on analysis of the results of 50 questionnaires in English language that were spread out in May 2007. The target groups of the author were people in the age from 22- 40 years, all with work experience and working, some of them CEO's, with finished higher education and with at least one foreign language knowledge. The target group was chosen as described above in order to have less random results and have the possibility to compare the data from the both countries.

The author made a division according to the principal of nationality. In total 50 people compiled the questionnaire or were interviewed, from which 25 in Latvia and 25 in Estonia. In Latvia from 25 people 12 were Russian by nationality and 13 Latvian and similarly in Estonia 12 were Russian and 13 Estonian.

The author adjusts the results to the total of the population. The data was transformed in mathematically comparable way by replacing answers A with 1 and answers B with 2. In each section answer A and B corresponded to one of the culture dimensions compared. Then the arithmetical mean and average value for each question section was found. One of the practical objectives was to find the mathematical correlation between different ethnical groups.

### **2.1.2. Interview about culture impact on M&A**

The case study chosen is Lauma Lingerie, acquired by Estonian risk investor company Alta Capital Partners. The methodology chosen by the author is an interview of the director of Lauma Lingerie that is a first source and targeted information used for the analysis of the company and for the analysis of culture impact on the deal.

The aim of this method is to make a description of the company's corporate activities before and after the merger as well as try to outline the culture impact on the changes in corporate strategy.

The interview was structured in the following sections:

- 1) Question session about the pre-merger corporate activities and corporate strategy of Lauma Lingerie;
- 2) Acquisition team and it's competencies;
- 3) Question session about the post-merger changes in the management and the board and it's impact on changes in corporate strategy;
- 4) Evaluation given by the director about the impact of culture and mental differences on the merger realization and the result of it in context of nationality;
- 5) Question session about the current, post-merger company strategy and prospect for the future in the light of the new corporate culture.

The interview time – 2 hours.

## **2.2. Effect of Globalization and Liberalization on Latvian and Estonian companies and the increase of M&A**

### **2.2.1. Overview of the merger related situation in Estonia and Latvia**

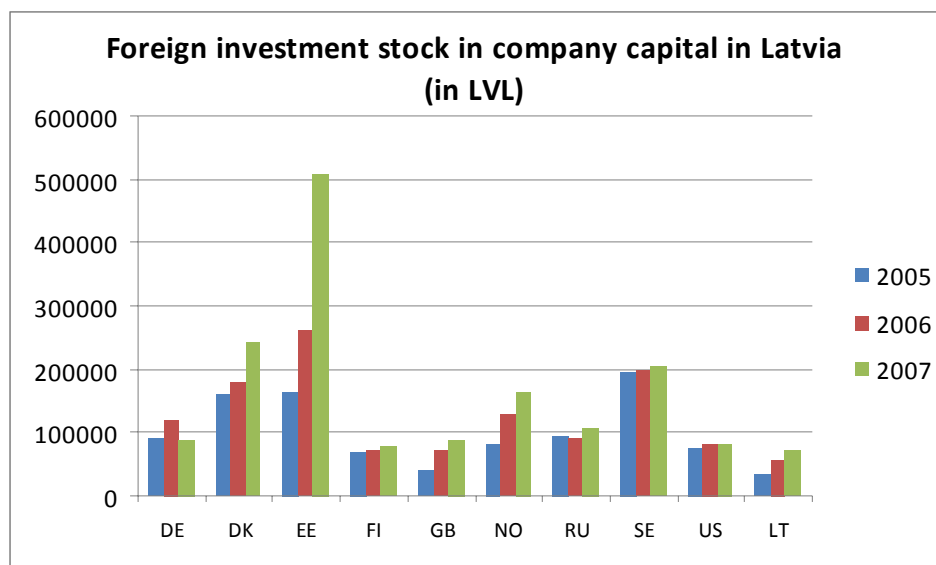
The globalization and liberalization has had an impact not only on merger and acquisition increase in the global level but also in the regional level. After the breakdown of the Soviet Union and gaining the independence Estonia and Latvia started an extensive liberalization of the previously state controlled economy with the aim to create market economy. Liberalization was achieved by privatization of large state enterprises as well as privatization of land and housing premises. Latvia and Estonia saw extensive acquisitions by investors from the Western European countries as well as from Russia.

After joining the European Union in 2004, Latvia and Estonia saw an increase in foreign trade as well as in foreign direct investments. In the course of the years starting from 1991 and up to now economies of the Baltic States have become more interdependent than ever. There are many reasons for carrying out M&A. In the case of Latvia, Estonian investors are interested in gaining a bigger local market share in the Baltic region. In many sectors Estonian economy was more developed than the Latvian economy mostly due to the Finnish investment carried out in the very

beginning of the 90-ties. Thus further expansion of Estonian companies towards Latvia was a logical step.

According to the Statistical Office of Estonia in 2007 Latvia was the second major foreign trade partner of Estonia after Sweden.

Picture 1

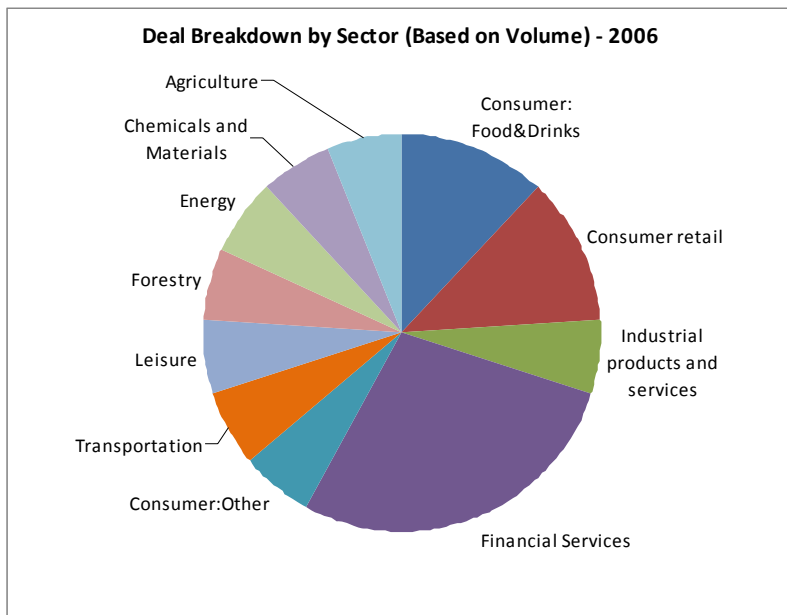


Source: Central Statistical Bureau

Since 2006 according to the data provided by the Central Statistical Bureau, Estonia has been the major partner of Latvia in the domain of foreign investment stock in company capital. In 2007 Estonian investment was followed by Denmark, Sweden and Norway. If in 2006, the share of Estonian investment in Latvia was 15%, then in 2007 it reached already 22%. In the Picture 1, the same data are expressed in thousands of lats.

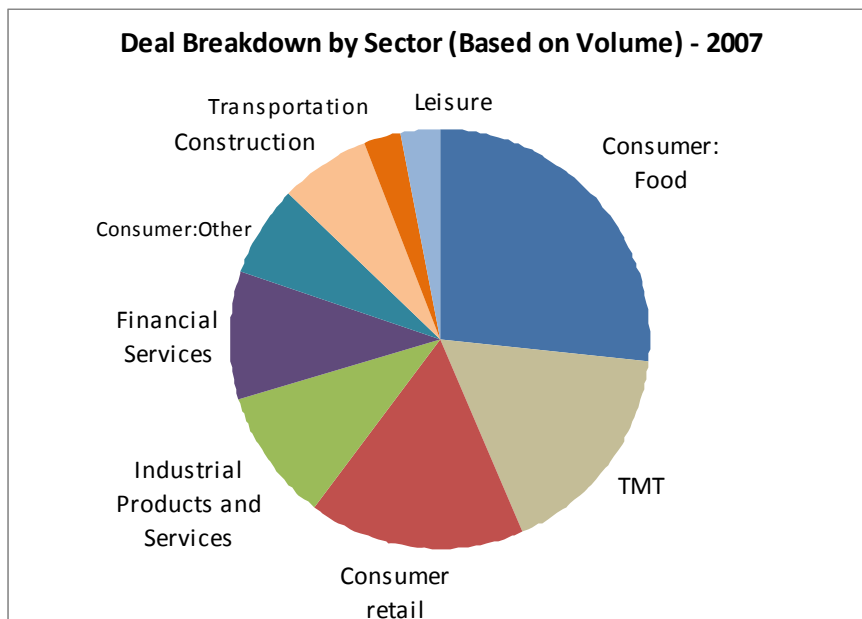
In 2006 and 2007, the activities of the mergers and acquisitions had the tendency to increase. However, there is no precise statistics about the volume in relation to the country that has done merger or acquisition. Similarly to global tendencies, acquisitions dominated over mergers.

Picture 2



Source: Prudentia Financiers<sup>74</sup>

Picture 3



Source: Prudentia Financiers<sup>75</sup>

<sup>74</sup> Prudentia Financiers. "Overview of Latvian M&A market." *Conference proceedings IV International conference M&A in the Baltic States*. Riga, Riga Managers School, 2008, P.33

<sup>75</sup> *Ibid.*, P.33

In 2006 the sectors that were most affected by M&A were financial services with 28% share, followed by consumer sector – food and drinks as well as retail market both 12% respectively (Picture 2). Activities in agriculture, chemical materials, energy, forestry, leisure, transportation and industrial product sectors were considerably smaller – around 6% in each sector.

In 2007 a major increase can be seen in consumer sector relative to food – 15% with respect to 2006 and reaching a total share of 27%. Other sectors that dominated the merger and acquisition deals in 2007 were TMT (technologies, media and telecommunications) with a 17% share and consumer retail with 17%. The sectors such as transportation and leisure sectors had only 3% share each whereas construction sector and industrial products and services saw a considerable increase. (Picture 3)

It is expected that in 2008, major M&A deals will be carried out in financial, information technology, retail and pharmaceutical sectors.<sup>76</sup>

### **2.2.2. Major mergers carried out by Estonian companies in Latvia**

According to Lursoft, in the period from 1991 to 2008, there have been more than 40 major investment deals in the company capital carried out by Estonian companies in Latvia with the deal amount exceeding 500.000 lats.

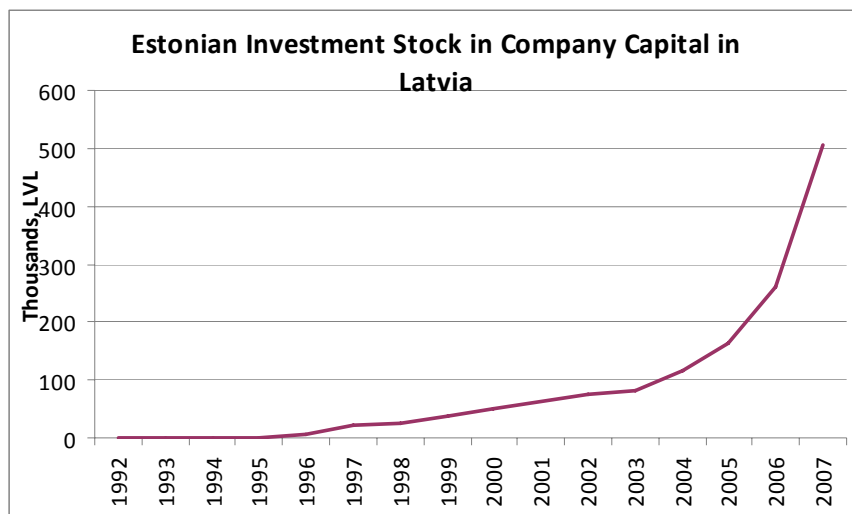
The data is available about the major deals as well as major investors; however, the author is aware that behind the Estonian company carrying out the deal could be also Finnish or Russian investor etc.

The Estonian company investments in Latvia have increased considerably after 2003 (Picture 4). However, there is no precise statistics of M&A share in these deals.

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<sup>76</sup> Prudentia Financiers. “Overview of Latvian M&A market.” *Conference proceedings IV International conference M&A in the Baltic States*. Riga, Riga Managers School, 2008, P.35

Picture 4



Source: Central Statistical Bureau

The most important Estonian investments in financial sector in Latvia are associated with Hansabanka that was created as a foreign subsidiary of Hansapank as well as with Estonian company Lohmus Haavel & Viisemann and its Gild Financial Advisory Services, “Andrejosta RE”, “Latvijas Naftas Tranzīts” and “Kurzemes investīcijas”.

Italian businessman E. Preatoni based in Estonia has been realizing his company’s financial interests in Latvia through Pro Kapital and Svalbork Invest operating in real estate sector and Neotrust having shares of the World Trade Center in Latvia.

In the construction and construction material sector the most important Estonian company operating in Latvia is Merko Ehitus with its Latvian subsidiary, Tartu Maja Betoontooted and Maxit Estonia. In the oil industry operates Estonian Alexela Oil. StoraEnso Timber is one of the major players in forestry. Estonian Norby Telecom operates in the information technology and media sector.

In the leisure sector dominates Estonian Olympic Entertainment Group with its Latvian subsidiary that controls “Olympic Casino Latvia”, “Olympic Casino Group Baltic”, “Ahti” and “Faraons.” They are among the biggest players in this market sector in Latvia.

Estonian enterprises have carried out some important acquisitions in the consumer: food and drink sector, those being “Cēsu alus” acquired by A. Le Coq Group, “Rīgas Miesnieks” by Rakvere Lihakombinaat, “Lion” by Liviko, “Daugavpils Gaļaskombināts R” by Uvic, “Frozen Foods Latvia” and “Rīgas Piensaimnieks” by Alta Capital Partners, “Margota” by Balbiino.

In the industrial sector the major acquisitions have been: “Daugavpils Lokomotīvu Remonta Rūpnīca” by Skinest Projekt for Spacecom and LLC Lokomotiiv Investeeringuud. One of the most important recent deals in the construction sector was the acquisition of “Latvijas Energoceltņieks” by Alta Capital Partners.

## **2.3. Differences in Latvian and Estonian language**

### **2.3.1. Estonian and Latvian language impact on international cooperation**

One of the most important aspects of the national or local culture is language. It is strictly connected with the way we think. The ways of expression as well as grammatical particularities have a deep impact on the way we perceive and act in the world. For example, the use of numbers in French and German language is different. The number 82 in French is expressed as “four times twenty plus two” whereas in German as “two and eighty”. This is a clear example how different can be the counting and thinking process in the countries that use French and German languages. In most of the cases, especially when people master only their mother tongue, they are unaware of the existence of such phenomena.

People who do not know the language of the country they are doing business in, are often limited by stereotypes. Communication by using language skills is the most crucial aspect for succeeding in international scale both during the negotiation process as well as in other merger and acquisition periods.

Using another, foreign language, is not a translation word-per-word of the source text – it is the transmission of concepts to the other party in an understandable way as well

as the ability to participate in a dialogue. Language can be a source of misunderstandings and translations are often regarded as the biggest sources of error and miscomprehensions.

The differences between Latvian and Estonian languages are considerable. They belong to different language branches. Latvian belongs to Indo-European language tree and is a part of the Baltic language branch (similarly to Lithuanian and the extinct Old-Prussian) whereas Estonian is a part of the Finno-ugric languages (similarly to Finnish and Hungarian) that do not have an Indo-European background.

Both Estonian and Latvian are among the smallest languages in the world that carry out all the functions necessary for a national state. Latvian is spoken by 1.4 million people in Latvia and 150.000 outside Latvia. Estonian is spoken by 1.1 million from which 900.000 live in Estonia.

The author also found it useful to give an overview of Latvian and Estonian language differences, their possible impact on communication process also in the cases when the communication is done in another foreign language.

The language differences can greatly affect communication process between business partners. The author believes that people tend to bring the particularities and logics of their mother tongue also to other languages they use. It is very common that users are unaware of this linguistic aspect.

The language is not necessarily a problem especially if the knowledge of the foreign language is excellent. Though many researches claim that in the Baltic States the knowledge of foreign languages is rather high, however, the author's experience shows that many times this is a basic or poor knowledge of a foreign language that can create problems in business communication.

Whatever the chosen language of business communication between Latvians and Estonian partners across the borders – Russian, English or German - the Latvian, Russian or Estonian mother tongue affects the communication. It is also very important to note, that the knowledge of Estonian language among Latvians and vice versa is very limited.

If analyzing Estonian, in the author's opinion, the most common misunderstandings that might affect the communication process is the inexistence of gender and future tense in Estonian language. This can cause problems when speaking about time and especially about deadlines. In Estonian future tense can only be expressed by present simple thus sometimes creating misunderstandings in foreign language about the use of the future simple and continuous tenses.

Also the gender inexistence can cause misunderstandings about who is the person who has to carry out actions, as many times Estonians misuse the personal pronouns "he, she". Thus when conversing in a foreign language not always it is clear to whom they are referring to.

The misunderstandings that could be influenced by particularities of the Latvian language, to the author's opinion, are less if compared to Estonian. However, one of the most problematic issues are adjective degrees of comparison that not always allows the speakers to be precise and use appropriate term in the foreign language. The use of English and German languages is thus quite problematic because this function is carried out by definite and indefinite article. However, as there are no articles in Latvian, people tend to misuse the articles and not give a clear message. In this respect, the use of adjective degrees of comparison is more precise if the language of communication is Russian.

### **3. ANALYSIS OF LATVIAN AND ESTONIAN CULTURE DIFFERENCES THAT AFFECT BUSINESS RELATIONS IN M&A CONTEXT**

#### **3.1. Questionnaire using Hofstede's dimensions**

The author chose Hofstede's culture dimensions for the background of the questionnaire as they were the most adapted for reaching the results of the research.

The questionnaire was divided in 8 parts with 56 questions that correspond to 1) power distance; 2) uncertainty avoidance; 3) individualism and collectivism; 4) masculinity and femininity; 5) universal versus particular; 6) group and individual; 7) culture versus environment; 8) organizational culture.

50 employed people from which 13 Latvians and 12 Russians living in Latvia and 13 Estonians and 12 Russians living in Estonia in the age group between 22 and 40 years answered the questionnaire. The results obtained, the author refers to the total of the population. 4 questionnaires were compiled by CEO's but as the results were similar to their co-nationals, they were not analysed separately.

The results are being analysed according to the criteria of nationality – Estonian, Latvian and Russian (living in Estonia and living in Latvia) as well as country (Latvia, Estonia). The data analysed are only referable to Latvia and Estonia, no comparison is given with respect to the results obtained by G. Hofstede in other countries as the data is not comparable.

The arithmetical means were found by expressing the answers of the questions as A=1 and B=2.

General tendencies can be seen as follows:

- 1) 60% of the answers of Latvians and Estonians were the same;
- 2) 35% of Estonians and Russians living in Estonia have answered similarly;
- 3) 40% of Latvians have answered similarly to Russians living in Latvia which is more of compared to the 35% in Estonia;

- 4) 62% of Russians living in Latvia have answered similarly to Russians living in Estonia.

### 1) Power distance

The question section about the power distance included 10 questions. (See Annex N.2) The answer A is relative to low power distance (LPD), the answer option B is relative to high power distance (HPD).

Power distance dimension is relative to the way how society deals with the human inequality. If applied to the business environment, this is usually how people deal with wealth and power. In practical terms this shows whether subordinates are afraid to disagree with the superiors or not.

**In LPD countries** people are ashamed of power and its influence. In LPD children are socialized and are treated as equals, they can freely express their thoughts.

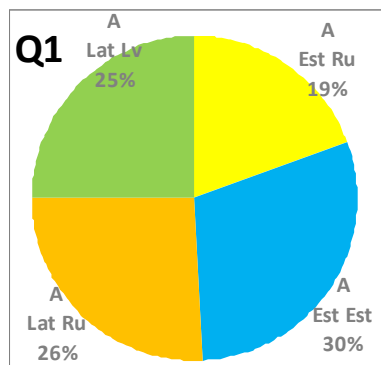
**Organizations in low PD countries** trust formal control systems.

**In high PD countries** children are seen as inferior people and are not allowed to contradict or to express themselves freely. In high PD countries people tend to use more status symbols and exercise their power. Organizations in higher PD **countries** tend to have more political than strategic thinking, more personal planning and less formal control.

The results obtained reveal that generally both Latvia and Estonia are low power distance countries. However if analysing the answers according to the principle of nationality, Latvians and Estonians are more low power distance oriented whereas Russians living in Estonia tend to be more high power distance oriented. (See Picture 5 and Annex N.3) Estonians were more low power distance oriented than other ethnical groups questioned.

In practical terms this means that Estonian investors carrying out M&A in Latvia should pay attention to the fact that as Latvia is a higher power distance country than Estonia, thus the use of status symbols is more common also the personal planning is more trusted.

Picture 5



Source: Author's diagram

## 2) Uncertainty avoidance

The question section included 11 questions. The answer option A stands for low uncertainty avoidance and B for high uncertainty avoidance.

This dimension deals with the uncertainty about the future which is strictly connected with the employment stability and stress. According to Hofstede, genders tend to give similar attitudes in this respect.

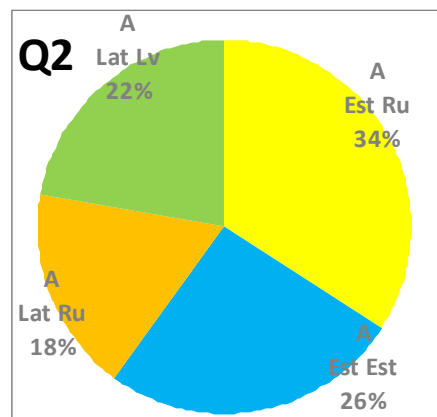
Generally **in low uncertainty avoidance (UA) countries** there is a smaller work related stress, emotions are more controlled and there is also a favourable attitude towards young people.

**In high UA countries** there is a tendency to stay with the same employer for a long period of time even if the stress level at working place is high. Employees resist to changes and they are generally suspicious about foreign managers.

The results show that the overall orientation of Latvia and Estonia is low uncertainty avoidance oriented. However, the answers gathered show that Latvia was 25% less low uncertainty avoidance oriented than Estonia. According to the etchnical groups, Estonians are more low UA oriented than Latvians. Russians living in Estonia had the highest low UA result among all etchnical groups whereas Russians living in Latvia were more high UA oriented than other groups. (See Picture 6 and Annex N.3)

In practical terms this means that Estonian investors carrying out M&A in Latvia have to pay particular attention to these differences that mean that Latvian employees tend to sustain and put up with higher work related stress, they don't trust foreign managers and they prefer working for the same employer for a long time even if the working conditions are not very good.

Picture 6



Source: Author's diagram

### 3) Individualism and collectivism

The question section included 11 questions. The answer A stood for low individualism and B for high individualism.

Individualism versus collectivism is a culture dimension that is most visible in the way people live in the society – in small or big families.

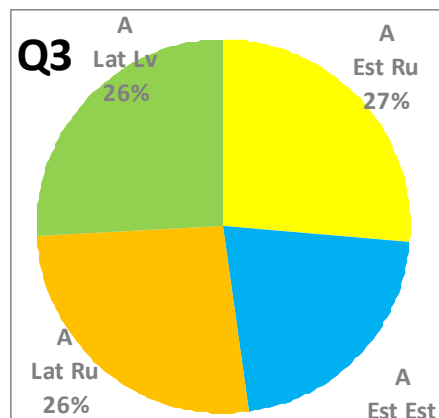
**In low individualism** countries great importance is given to training activities and skills; employees tend to stay in the same company for a long time; interesting work is as important as earnings.

**In high individualism** countries working conditions are not as important as extra free time given to employees for their personal lives; employees are chosen according to their performance in their previous jobs and a smaller attention is given to the necessary qualifications.

Similarly to the Scandinavian practice, the general country related results show that both Latvia and Estonia are high individualism countries, however, answers gathered in Latvia showed a 10% smaller high individualism orientation than in Estonia. The results show that in the both countries high individualism dominates over collectivism. Latvians, Russians living in Latvia and Russians living in Estonia were more oriented versus high individualism. Estonian answers were less individualism oriented with respect to the answers of Latvians. (See Picture 7 and Annex N.3)

In practice, Estonian investors carrying out M&A deals in Latvia should take into account the fact that Latvia is moderately less high individualism oriented meaning that people tend to stay longer with the same employer than in Estonia and that the society is more traditional if compared to Estonia.

Picture 7



Source: Author's diagram

#### 4) Masculinity and femininity

This question section included 14 questions where the answer A stood for low masculinity (LMAS) and B for high masculinity (HMAS).

There is a great difference in social value systems in masculine and feminine societies, the latter being more concerned about social and gender equality, helping other people and caring about the environment. Masculine culture is more money, career and goal driven.

The traditional values associated with masculine attitude are financial success and career development. There is a high regard on those being well trained in the profession as well as being in the centre of attention and ready to reply to changes in the market. Values considered as feminine are the concentration on social issues, friendly environment, well provided social and physical conditions.

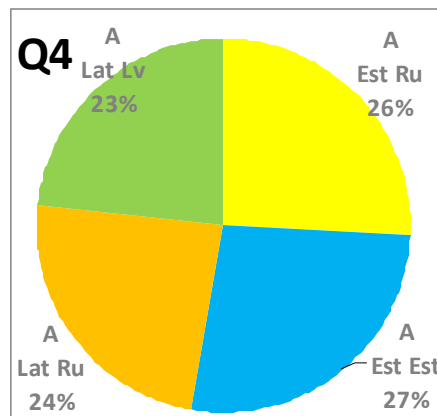
In **low masculinity (and high femininity) countries** work does not have the central role in person's life; there is a lower work related stress; quality of life and people are important.

In **high masculinity (and low femininity) countries** there is a higher work stress; work generally has a central role in person's life; money and things are important.

The results of the questionnaire show that both respondents in Latvia and in Estonia showed a major trend for low masculinity. In particular, if comparing the results obtained according to the nationality, then Estonians were the most high femininity oriented followed by Russians living in Estonia, Russians living in Latvia and Latvians. (See Picture 8 and Annex N.3)

In practice this means that Estonian investors dealing with M&A in Latvia should take into account that their value orientation is 10% more feminine than their counterpart value orientation in Latvia. This means that employees and business partners in Latvia will appreciate more recognition at work and rise in earnings rather than more free time and better working conditions.

Picture 8



Source: Author's diagram

## 5) Universal and particular

This question section included 3 case descriptions that have been worked out according to F. Trompenaar's dimension. There were 3 answer options.

**Universalism** is more common to protestant cultures whereas in Catholic cultures it is perceived differently. Universalist cultures are more pragmatic and rational. If having problems, they use legal instruments for resolving them<sup>77</sup>. They consider people not always being trustable; however, the rule of law is highly respected.

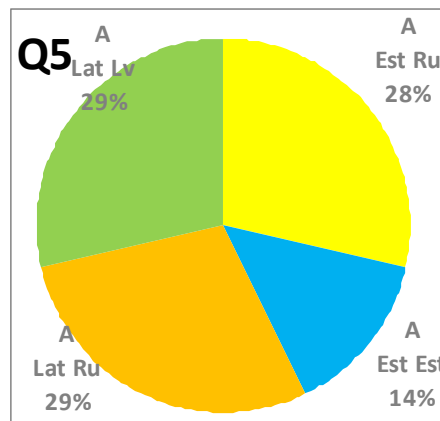
**In particularistic countries** people try to find compromise between them and negotiate as much as necessary for getting a satisfactory result for all sides. They would turn to legal help only when all the interpersonal communication instruments have been tried out.

The results show that answers gathered in Estonia and Latvia demonstrate a general tendency for universalism. According to the nationality the results show that answers given by Estonians were more oriented versus universalism than the answers of Latvians and Russians living in the both countries. (See Picture 9 and Annex N.3) For investors this means that counterparts in Latvia would be more disposed for a negotiation and they would turn to legal help only when all the other options were tried out.

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<sup>77</sup> Trompenaars, F. *Riding the Waves of Culture: Understanding Cultural Diversity in Business*/London: Brealey, 1993. P.36

Picture 9



Source: Author's diagram

## 6) Group and individual

This question section included 4 questions with three answer options. Group and individual is a culture dimension created by F. Trompenaars similarly to the next 2 culture dimensions.

This dimension deals with the most common perception of individuals. It gives the answer to the question whether individuals are first identifying themselves as members of a group or their own personality is the major object of their concern.

The main difference between individualistic and group oriented countries is the point of departure. In the first case the individual and his well being is the most important thing and the society is only working in order to achieve it. In individualistic cultures salary is the most important aspect when choosing the job. In individualistic cultures organizations are perceived as instruments that serve people and thus have to be formally regulated.

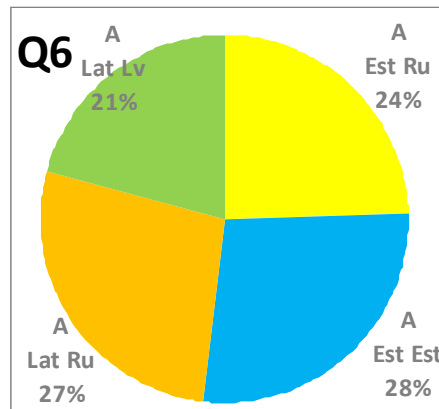
In group related cultures group is the most important part of the society and individual development is only needed for contributing to the well being of the whole group.<sup>78</sup>

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<sup>78</sup> Trompenaars, F. Riding the Waves of Culture: Understanding Cultural Diversity in Business/London: Brealey, 1993. P.60

The results of the questionnaire show that generally both Latvia and Estonia can be considered as individualistic countries. Estonians and Russians living in Latvia are more individualistic than Latvians and Russians living in Estonia. (See Picture 10 and Annex N.3)

Picture 10



Source: Author's diagram

## 7) Culture versus environment

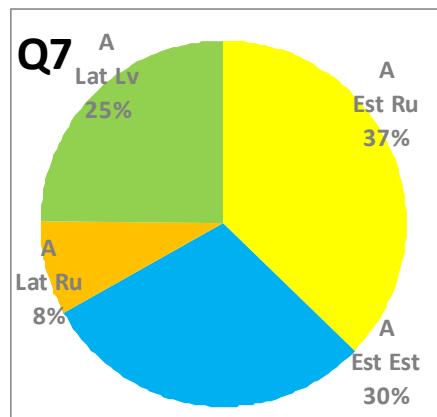
This question section included 2 questions. The answer A stood for the culture orientation and B for the environment orientation.

This dimension is related to nature and the ways how people perceive it. Some cultures perceive human beings as the highest creatures on the earth and who thus have the power to limit and control the nature. While other cultures think of themselves as a part of the nature. In this case nature is perceived as more powerful than human beings.

The results obtained from the questionnaire show that both Latvians and Estonians are culture oriented. Russians living in Latvia were more environment oriented if compared to other groups. (See Picture 11 and Annex N.3)

In this respect there are no significant differences among the two countries – Latvia and Estonia.

Picture 11



Source: Author's diagram

## 8) Organizational culture

This question section included one question about organizational culture and structure and the way people perceive it.

Estonian and Russian living in Estonia answers dominated the vision of an organization that is a group of people that cooperate. Latvians and Russians living in Latvia almost unanimously answered that they perceive organization as a formal structure with a well defined hierarchy.

In practice this means that Estonian investors carrying out M&A in Latvia should pay a particular attention to the way how organization is perceived in Latvia. If the structure in Estonia is preferred to be open, with no formal hierarchy then the employees in Latvia would not appreciate it as the perception of the organization is much more formal. If the communication with the boss in Estonia is carried out in an almost informal and open-minded way, in Latvia it should be scheduled and carried out with a more distance as this would give more importance and respect to the boss in the eyes of employees.

### **3. 2. Culture difference impact on M&A. Study of Lauma Lingerie**

In January 2008, the author had the opportunity to interview the general director of Lauma Lingerie Lauma Matisone that was appointed to the position in 2006 after the withdrawal of Edgars Štelmahers.

In the 2004, Lauma Lingerie, located in Liepaja, was acquired by the Estonian company Alta Capital Partners that represents the interests of Silvano Fashion Group Holding. This holding includes some of the most important brands present in the Baltics and beyond, such as Milavitsa, Oblicie, PTA and Splendo. It can be argued that after the acquisition of Lauma Lingerie, Silvano Fashion Group (SFG) has become the biggest lingerie producer in the region and one of most influential textile enterprise in the Baltics, along Apranga Group and few others. The SFG is listed in the Tallinn Stock Exchange.

Alta Capital Partners is a private equity buyout firm that has created a portfolio with companies from the Baltic States and Belarus. Their portfolio includes Latvian companies Lauma Lingerie, Rīgas Piensamnieks, Latvijas Enerģoceltnieks and Frozen Foods Latvia. Lauma Matisone stressed that Alta Capital Partners is one of the most experienced Estonian investors in Latvia. The acquisition team was well informed about the company, its corporate culture as well as Latvian culture differences.

According to Linda Matisone, the acquisition has brought some considerable changes in the management as well as in the operations of the company. The management team from the Latvian part was well informed about the plans of the acquirer.

Prior to the acquisition, the company based its production in Latvia and also the materials used were mostly made in Latvia by Lauma Fabrics. The most important company strategy prior the acquisition was to maintain its local market, avoid employee shortenings and base production in Latvia. Prior to the acquisition Lauma Lingerie participated in the lingerie exhibition in Paris, together with other lingerie producers representing Latvian production. However, the company did not have any serious and well planned expansion plans.

After the acquisition the company changed its production and market expansion strategies that will be discussed later.

From the culture point of view, the company did not experience any culture clashes because the local management in the person of Edgars Štelmahers and later Linda Matisone were given authorization to carry out an extensive communication strategy – both internal and external. The company's web page was created. The author suggests that the culture clash in this case was small or almost non-existent due to two very important factors – one being the fact that employees in the light industry in Liepāja are generally Russian-speaking and the second – that two of the chairmen of the Board in Silvano Fashion Group are Russian-native speakers. Also the Lauma Lingerie pre-acquisition and also post-acquisition management is to large extent Russian speaking and thus culturally very similar. This allowed avoiding communication conflicts that probably would have been much more extensive if the acquisition involved local Latvian speaking management and Estonian speaking management of the acquirer with English as the communication language. The new holding management board includes Latvian management representatives as well as 2 Russian speaking and 2 Estonian speaking representatives of Silvano Fashion Group.

After the acquisition, the company developed a new financial strategy according to which Lauma is basing its activities on sewing lingerie products as well as selling them through a shop network that the company will develop. Until 2010, the company has planned to open 300 shops in the Baltics, Russia, Ukraine and Poland. At the moment, the SFG has contracted for Lauma Lingerie to be sold in Russia through the shop network called Oblicie. The company strategy to move towards these markets is due to the tension in the European Union market that undergoes a considerable textile crisis. The company has tried to enter the French market, but this attempt was unsuccessful mostly due to the uncompetitive prices offered by Lauma and also because of Lauma Lingerie being an unknown brand for the French customer.

Due to the long history of the company Lauma, its brand is easily recognized in the ex-Soviet bloc countries which gives a competitive advantage to the enterprise.

According to Lauma Matisone now the company exports more than 90% of its production whereas 8% are consumed locally. Products by Lauma Lingerie are also sold in the Great Britain but under another brand, however, this market seems too difficult to the management mostly due to the deflation, high competition and low price policies. Lauma Lingerie is also being sold through an agent in Kazakhstan.

After the acquisition, the new management agreed upon introducing a new brand Laumelle that is especially designed for young girls and young women who prefer natural fibres and active way of life. Prior to the acquisition, Lauma lingerie used almost only synthetic fibres.

Also a swimwear collection has been now introduced under the brand Lauma; however, as there was no appropriate equipment in the factory, this service has been outsourced from China.

After the acquisition, the new management agreed upon the future plans that would leave only 50% of the production in the factory in Liepaja and outsource 50% in Belarus, Ukraine and China. At the moment, the production in Liepaja has the tendency to decrease and will most probably decrease to 30%.

If not acquired by Silvano Fashion Group, the company would have probably experienced serious difficulties due to the rising inflation in Latvia as well as due to the salary increase and uncompetitive operating strategy of the company.

According to Linda Matisone, Lauma Lingerie has always paid all the employee related taxes, which results in unfair competition – many of the companies operating in Liepaja in lingerie sector (more than 70 in total), according to her, are not paying all the taxes and thus are able to pay higher salaries that employees get in hand. This was one of the reasons the new company management decided to move the production outside of Latvia starting already from 2006 and it is still resulting to be an ongoing process.

The lack of employees was one of the biggest problems in Latvia during the year 2007, however, with the decrease in production and decrease in the construction sector, the unemployment has increased and finding an employee is no longer a

problem. It is interesting to note, that sewer salaries in China and Latvia are very similar (around 250 Ls before the taxation), however, in China employees work 6 days a week and up to 10 hours a day and their productivity is up to 6 times higher than sewer productivity in Latvia. This was one of the reasons for outsourcing.

Another reason for moving the production outside of Latvia was the high import tariffs on textile products in Russia. The import tariffs for the textile garments made in the EU reaches up to 40% whereas there are no tariffs for garments imported in Russia from Belarus and Ukraine, and up to 25% tariffs for imports from China. Thus keeping the brand Lauma but producing low cost outside Latvia is one of the cornerstones of the post-acquisition strategy of Lauma Lingerie.

As after the acquisition it was decided to develop company's own shop network, they no longer participate in lingerie fashion exhibitions, though, they are regular visitors in the exhibitions in Hong Kong, Paris and Lyon. Other Latvian lingerie producers up to now participate together in the exhibitions in Moscow.

As already mentioned above, prior to the merger, all materials were acquired from Lauma Fabrics, located in Liepaja in the same building as Lauma Lingerie. However, after the acquisition, the use of local fabrics has been decreased to 50% whereas the other 50% are bought in the other countries in the EU. The new management also tried to introduce innovation - intelligent textile –scented fabrics- into their production. However, these products were not appreciated by the customers and thus this line has been closed.

The acquisition of the company from the local customer point of view increased the quality as well as the prices of the products by Lauma Lingerie.

There has been a change in product style that has been carried out by French designer Eric Lerua, who is leading the lingerie designer team in Lauma Lingerie. He also assists all the new collection material acquisitions and participates in the creation of new and creative products.

After the acquisition, the new management is more oriented versus brand building and marketing. Before the merger, the company was more production oriented.

In the end, Linda Matisone agreed that the overall result of this M&A was successful due to the new owners who changed the activities to more market oriented strategy of the company. Another success factor, according to L.Matisone was the division of responsibilities between the owners who mainly deal with market strategy and local management who is given complete freedom for communication strategy.

## Conclusions and suggestions

**Hypothesis** of the author was that culture differences have an impact on the success of mergers and acquisitions not only globally but also in Latvia. The hypothesis has been affirmed by theoretical resources as well as the practical part of the research.

1. Even if globalization is a growing trend, national cultures are not being cancelled and do not lose their importance. Thus M&A teams should be aware of the local reality.
2. Globalization, liberalization, transaction cost reduction and activities of the international organizations (harmonization of standards) have contributed to the increase of foreign direct investments and the number of M&A not only globally but also in Latvia and Estonia.
3. After the accessing to the EU in 2004, the merger and acquisition increase in Latvia was sharper than ever, to large extent due to the investment done by Estonian companies.
4. There are many reasons for carrying out M&A. In the case of Latvia, Estonian investors are interested in gaining a bigger local market share in the Baltic region.
5. If carried out successfully an M&A deal is adding value to the company as well as it boosts its price in the market.
6. The M&A risk is smaller if the deal is horizontal and the acquired company does not differ in its core competencies from the acquirer.
7. The longer the M&A process, the riskier it is. The M&A process should be carried out fast to avoid rumours and to integrate the workforce more effectively.
8. M&A carried out by small and medium size enterprises were more successful than deals by large companies.
9. Even if national and corporate culture are among the highest risk factors in an M&A deal they are very often underestimated and thus the deal itself is overvalued.
10. International M&A are more risky than local deals. In order to reduce culture related risk, the deal should be carried out by a professional M&A team. The

M&A team as well as the leadership of the company should be trained about the culture differences.

11. Recently a new figure – culture manager- has been introduced in the M&A teams. Culture manager figure should be introduced in the M&A team in order to provide cultural training as well as assist to the problematic culture related issues.
12. Due diligence and recently also culture due diligence have recently become among the most important preparatory works in the pre-merger phase. The culture due diligence should be carried out prior to the acquisition in order to raise culture awareness and reduce communication problems.
13. The more similar the culture (especially language and values) of the acquirer and the acquired company, the less risky the M&A.
14. Mutual respect and the feeling of equality among the sides involved in an M&A is a factor contributing to success of the deal.
15. In international deals people tend to become more nationalistic and use culture differences as an excuse for inappropriate behaviour.
16. Management people are among the most changed employees during the M&A. After the M&A a new management team should be introduced that embodies the values of the new organization and is positive and full of energy.
17. Communication strategy is one of the cornerstones of the M&A. An extensive communication strategy should be carried out not only in mass media but also inside the organization. Leadership in their communication should address national, organizational culture as well as individual beliefs and values.
18. Culture and value differences are causing stress and misunderstandings. Culture differences and values should be used for motivating employees in the most efficient way.
19. In the M&A process the leadership makes mistakes by concentrating only on one part of the deal or business. In order to gain success, the leadership and M&A team should concentrate on achieving growth, meeting financial targets, maximizing employee potential and managing risk.
20. Trade unions are often participating in the M&A process in order to give sustain to the employees. The trade unions should be introduced as intermediaries in a constructive dialogue between the leadership and the employees.

21. Unjust HR management policies are one of the risks for M&A failure. HR management policy should be egalitarian with respect to all employees.
22. There is a myth that only the acquired organization is disposed to change. Both organizations should be ready to change in order to reach common objectives.
23. Foreign management control is not always efficient. Local management should be given the right to ensure control as it is more efficient in this process.
24. Often corporate culture is more looked at than national culture. As the corporate and national cultures are interrelated, they should be paid much attention to in order to create common values and goals.
25. When dealing with another culture, a stereotypical approach can be often seen. As stereotypes are causing misunderstandings and fears, they should be eliminated with culture studies.
26. Logical and practical analysis is often the only concern of the M&A team. However, financial and practical analysis should be put at the same level of importance as cultural analysis.
27. Culture is often seen as a problematic issue. Culture should be looked at as an enriching experience that can increase the competencies of the company as well as personal growth.
28. Language can cause communication problems. In the case of Latvian and Estonian there are certain differences that should be considered as they are sources for misunderstandings even if the communication is done in a foreign language. In Estonian – the inexistence of grammatical future and gender and in Latvian – the adjective degrees of comparison.
29. Hofstede's culture dimensions are a good background for analysing culture differences.
30. Latvia and Estonia are low power distance countries. Estonian investors carrying out M&A in Latvia should pay attention to the fact that as Latvia is a higher power distance country than Estonia, thus the use of status symbols is more common also the personal planning is more trusted.
31. Latvia and Estonia are low uncertainty avoidance oriented countries. When carrying out M&A in Latvia it should be taken into account that Latvian employees tend to sustain and put up with higher work related stress, they

don't trust foreign managers and they prefer working for the same employer for a long time even if the working conditions are not very good.

32. Latvia and Estonia are high individualism countries. In practice, Estonian investors carrying out M&A deals in Latvia should take into account the fact that Latvia is moderately less high individualism oriented meaning that the society is more traditional if compared to Estonia.
33. Latvia and Estonia are high femininity and low masculinity countries. Estonian investors dealing with M&A in Latvia should take into account that their value orientation is 10% more feminine than their counterpart value orientation in Latvia. This means that employees and business partners in Latvia will appreciate more recognition at work and rise in earnings rather than more free time and better working conditions.
34. Organizational culture is perceived differently in Estonia and Latvia. The organizational structure as well as communication in Latvia should be carried out in a more hierarchical and formal way.

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## **Kopsavilkums**

### **Maģistra darbs: KULTŪRAS IETEKME UZ UZŅĒMUMU APVIENOŠANU UN SAPLŪŠANU, KO VEIKUŠAS IGAUNIJAS KOMPĀNIJAS LATVIJĀ**

Joprojām ir maz pētījumu par kultūras ietekmi uz uzņēmumu saplūšanu un apvienošanu Latvijā un Igaunijā.

Maģistra darba mērķis ir identificēt šīs Latvijas un Igaunijas kultūras atšķirības, izmantojot Gerta Hofstedes (Geert Hofstede) kultūras dimensijas, lai sekmētu kultūras atšķirību apzināšanos investoru vidū.

Autora hipotēze ir, ka kultūras atšķirības atstāj ietekmi uz sekmīgu uzņēmuma saplūšanu un apvienošanu gan globālā mērogā, gan arī Latvijā.

Darbs ir strukturēts sekojoši: teorētiskā daļa sniedz pārskatu par galvenajiem faktoriem, kas ietekmē apvienošanu un saplūšanu (M&A) un iepazīstina ar autora idejām par šo jautājumu. Analītiskā daļa sniedz pārskatu par ekonomisko situāciju Latvijā salīdzinājumā ar Igauniju, kā arī salīdzinoši sniegta informācija saistībā ar kultūru un valodu. Praktiskā daļa iepazīstina ar anketu un izpētes datiem, praktiski atklājot kultūras atšķirības.

Pētījuma teorētiskais pamats ir balstīts uz ievērojamu teorētisku darbiem M&A jomā, kā arī uz informāciju zinātniskos žurnālos. Darba pielikumā ir pievienoti bibliogrāfiskie avoti.

## **I Teorētiskā daļa**

### **Faktori, kas ietekmē M&A**

#### **Globalizācija un tās ietekme uz M&A**

Līdz ar ekonomiskā procesa neatkarību, globalizācija nozīmē izdzīvošanu.

Globalizācijai ir vairākas dimensijas: sociālā, kultūras, politiskā un ekonomiskā.

Ekonomisko dimensiju globalizācijas procesā rada tirgus liberalizācija, tehnoloģiskais process un transporta izdevumu samazināšanās, kas izraisa M&A darījumu kāpumu.

Vēl viens globalizācijas radīts faktors ir nacionālo likumu neefektivitāte – ierobežota kapacitāte regulēt strapnacionālos darījumus.

### **Liberalizācija un tās loma M&A darījumu kāpumā**

Liberalizācija ir vēl viens faktors, kas palielina M&A darījumu skaitu.

GATT (General Agreement on Tariffs and Trade), tagad PTO (Pasaules Tirdzniecības organizācija) ir daudz darījušas, lai sekmētu šo procesu.

Sākot ar 1980. gadiem, valstis ir izmantojušas gan liberalizāciju, gan privatizāciju, lai mazinātu un risinātu valstu ekonomiskās problēmas.

Eiropas kontekstā Eiropas Savienībai reģionā ir bijusi milzīga ietekme – gan radot vienotu tirgu, kā arī nodrošinot 4 fundamentālās brīvības izpausmes. Liberalizācijas rezultātā ir pazeminājušās darījumu izmaksas un radīti starprobežu vienoti standarti.

### **Faktori, kas ietekmē M&A panākumus**

#### **Iemesli apvienošanās procesam**

Apvienošanās un saplūšanu izmanto, lai realizētu vairākus mērķus, piemēram, izmaksu samazināšanās, vieta Eiropā (saistībā ar Ķīnu un Indiju), cenu krišanās, kompānijai izaugot, zināšanu palielināšanās, ekspertīze un vietējā tirgus iekarošana. Reizēm īpašnieks ir spiests paplašināties, lai neiestātos stagnācija, vai lai pretotos konkurencei.

Starptautiski reizēm nav skaidrs, kāds rezultātā ir lielākais M&A ieguvums. Piemēram, ja kompānija ir izvietota apvidū, kur valdība kontrolē lielu daļu no ekonomikas, tie ir personīgie sakari starp menedžeriem un valdības pārstāvjiem, kam ir svarīga nozīme.

#### **Apvienošanās un saplūšanas veidi**

**Apvienošanās un saplūšanas veidi ir līdzīgi: horizontāli, vertikāli un daudzprofila**

Horizontālās M&A saites realizē vienas un tās pašas nozares ietvaros. Vertikālās M&A parasti ir klientu -piegādātāju vai pircēju-pārdevēju attiecībās. Daudzprofila M&A ir starp kompānijām, kuras darbojas dažādās nozarēs un kurām ir nesaistītas darbības.

### **Riski un veiksmes katalizatori**

Bez šaubām, apvienošanās un saplūšana vienmēr rada zināmu risku gan operatīvā, gan sociālā un kultūras līmenī.

Neveiksme ir vairāk iespējama, ja ieguvējs pērk kompāniju, kas atšķiras no galvenās darbības jomas, un kad darījums ir starptautisks. Neveiksmju iemesli ir, piemēram, lēna kompānijas integrācija, nepietiekama uzmanība kultūras un sociālajiem faktoriem u.c.

Starptautiskajos projektos, kas saistīti ar augstu riska pakāpi, ir trīs galvenie izaicinājumi – nacionālo kultūru līdzāspastāvēšana, kas rada komunikāciju problēmas un dažādu mērķu redzējumu, fiziska attāluma problēma un nespēja paredzēt virzienus ekonomikā un sociālpolitiskajā vidē.

### **Apvienošanās un saplūšanas komanda**

Parasti galvenie uzdevumi, kas komandai jāveic ir vadības funkcija, atbildība par biznesa attīstību, mērķu noteikšana, partnera uzticamības pārbaude (due diligence), kā rezultātā šiem cilvēkiem jāpārzina jautājumi par kultūras atšķirībām.

Sarunu dalībnieki plāno, izpilda un pārbauda izpildes procesu, juristi nodarbojas ar līguma slēgšanu un darba procesu, grāmatveži pārbauda izdevumus un resursus, finansisti – darījumus, bet cilvēku resursu eksperti plāno darbaspēku un tā integrāciju.

Pēdējā laikā apvienošanās procesā ienāk jauna figūra – kultūras menedžeris, kura galvenais uzdevums ir kultūras apmācību organizēšana, kā arī piedalīšanās visās aktivitātes, kur kultūras atšķirības var izraisīt problēmas.

### **Vadība un tās loma integrācijā**

Vadība vai citiem vārdiem vadības komanda ir svarīgs un izšķirošs posms M&A panākumu jomā.

Ir svarīgi, lai jaunās organizācijas vadība ir īstena visas organizācijas kultūras pārstāve. Viņiem jāsadala vērtības, jāizstāvē tās un jāienes pozitīva komunikācija organizācijā. Ja darbinieki jūt vadības atbalstu, viņi labprāt mierīgā un pacietīgā gaisotnē pārcietīs visas pārmaiņas.

### **Komunikāciju stratēģija**

Lai sasniegtu jau aprakstītos mērķus, vadībai jāizveido tās komunikāciju stratēģija, lai samazinātu baumas un stresu starp darbiniekiem un sabiedrības locekļiem.

Komunikāciju stratēģija ietver gan ārējo, gan iekšējo komunikāciju.

### **Cilvēku resursu loma M&A**

Šajā procesā cilvēku resursu vadības loma ir ļoti būtiska, atklājot kļūdas kā pēc apvienošanās situācijā, tā arī apvienošanās gaitā. Dialogs ar darbiniekiem un savstarpēja sapratne ir izšķiroša.

Apakšnodaļas **Pirms apvienošanās posma stratēģija, Apvienošanās posma stratēģija un Pēc apvienošanās posma stratēģija** sniedz ieskatu attiecīgā perioda problemātiskajos jautājumos.

### **Kultūras ietekme uz apvienošanos un saplūšanu**

#### **Nacionālā un korporatīvā kultūra**

Saskaņā ar G. Hofstedes teoriju cilvēku intelektuālai programmai, ko izveidojusi kultūra, ir trīs līmeņi: 1) vispārējais- raksturīgs visiem cilvēkiem; 2) kolektīvais – radniecīgs nacionālām kultūrām, ko izsaka caur valodu, raksturīgs visiem sabiedrības locekļiem; 3) individuālais līmenis – iegūts ģenētiski un pavisam nedaudz to

ietekmējusi kultūra. Veicot biznesa darījumus, kolektīvais līmenis ir vissvarīgākais, jo tas ietver ikdienas komunikāciju un uzvedību, ko ietekmējusi kultūras programma.

Ir diskutējams jautājums par nacionālo kultūru kā būtisku korporatīvās kultūras daļu, lai gan bieži korporatīvā kultūra kopē vairākus modeļus un uzvedības normas, kas raksturīgas nacionālai kultūrai. Šādā aspektā gan korporatīvā kultūra, gan nacionālā kultūra ietekmē organizācijas dzīvi.

### **Kultūras atšķirības un M&A**

Nav viennozīmīgas atbildes, vai kultūras atšķirībām ir negatīva vai pozitīva ietekme uz apvienošanu un saplūšanu, lai gan ir parasta prakse novērtēt kultūras atšķirības kā negatīvu faktoru.

Pētnieki Kūpers (Cooper) un Finkelšteins (Finkelstein) uzsver, ka kultūras lomas teorētiskais modelis M&A uzsver kultūras atšķirību negatīvo pusi, praktiskie pētījumi rāda, ka kultūras atšķirības vairāku apstākļu ietekmē var būt vērtīgs ieguvums, nevis traucēklis. Kultūras atšķirībām ir pozitīva nozīme uz sociāli kulturālo integrācijas procesu, kā kultūras sensitivitāte un tolerance, ko pauž iegūto firmu vadītāji. Turpretī organizacionālās kultūras atšķirības negatīvi ietekmē iekšējo vidi.

### **Kultūras izpratne**

Tādējādi kultūras un starpkulturālai komunikācijai jākalpo par kompānijas pamatstratēģiju līdzās finansiālai, korporatīvai un citām stratēģijām. Finansiālie ieguvumi var būt tikpat svarīgi kā starpkulturālā kompetence, kas ne vien sniedz vairāk veiksmes iespēju, bet arī paplašina pieredzi un kompānijas jaudu.

### **Vērtības korporatīvajā kultūrā**

Saskaņā ar Nensiju Adleri (Nancy Adler) kultūras vērtības ietekmē korporatīvo stratēģiju un visas organizacionālās uzvedības formas, ieskaitot atlasī un atalgojuma sistēmu, vadības un personāla attiecības, grupu uzvedību, komunikāciju un vadību, un konfliktu novēršanas paņēmienus.

Tiek meklētas atbildes uz jautājumu, kas ir nozīmīgs, kam ir prioritāte, kurš jārespektē, kuram jābūt cieņas pilnam u.c. Autore tic, ka izprotot kultūras vērtības, rodama atbilde uz jautājumu-kā visefektīvāk strādāt organizācijā.

## **Gerts Hofstede un viņa teorija par kultūras atšķirību dimensijām**

Salīdzinošā starpkultūru izpēte un analīze attīstījies 20 gs. otrajā pusē. Gerts Hofstede (Geert Hofstede) tāpat kā Fons Trompenārs (Fons Trompenaars) ir viens no visvairāk cienītākiem un iedvesmojošākiem pētniekiem šajā jomā. Viņa darbi apskata galvenokārt kultūras atšķirības un to ietekmi uz ekonomiskajiem procesiem. G. Hofstede ir klasificējis nacionālo kultūru atšķirības, izmantojot savu kultūras atšķirību dimensiju klasifikāciju:

- Varas distance;
- Izvairīšanās no nenoteiktības;
- Individuālisms un kolektīvisms;
- Maskulīnā un feminīnā vērtību orientācija;
- Ilgtermiņa / īstermiņa orientācija.

## **II Analītiskā daļa**

### **Metodoloģija un ekonomiskās un kultūras situācijas pārskats**

Analītiskā daļa ir balstīta uz metodoloģiju, kuru autore izvēlējusies: dots pārskats par ekonomisko situāciju Latvijā salīdzinājumā ar Igauniju; aprakstītas kultūras atšķirības, kas balstītas uz latviešu un igauņu valodas un kultūras atšķirībām. To varētu apkopot šādi:

### **Pētījumā izmantotas metodes**

#### **Anketa par kultūras atšķirībām starp igauņiem un latviešiem**

Izmantojot G. Hofstede's kultūras atšķirību dimensijas, autore izveidoja anketu, kura sastāv no 56 jautājumiem un sadalīta 8 apakšnodaļās, lai gūtu ieskatu igauņu un latviešu kultūras atšķirībās. Sadalījums veikts pēc tautības principa.

Kopumā 50 respondentu aizpildīja anketu vai tika intervēti, no tiem 25 Latvijā un 25 Igaunijā. Latvijā no 25 respondentiem 12 pēc tautības bija krievi un 13 latvieši; Igaunijā līdzīgi: 12 krievi un 13 igauņi. Mērķauditorija bija dalībnieki no 22- 40 gadiem, visi strādājošie ar darba pieredzi, daži no tiem vadošie darbinieki, ar pabeigtu augstāko izglītību un ar vismaz vienu svešvalodu. Kā jau norādīts, šādu mērķauditoriju autore izvēlējās, lai nebūtu nejaušu rezultātu, un lai būtu iespēja salīdzināt datus no abām valstīm.

### **Kultūras ietekmes pētījums pēc M&A Lauma Lingerie**

Par izpētes objektu izvēlēta Lauma Lingerie, ko iegādājās Igaunijas riska investoru kompānija Alta Capital Partners. Autore intervēja pašreizējo Lauma Lingerie ģenerāldirektori, lai iegūtu informāciju par kultūras un intelektuālajām atšķirībām, kas ietekmējušas kompāniju pēc apvienošanās - gan korporatīvo stilu, gan komunikāciju un biznesa stratēģiju.

### **Pārskats par ar saplūšanu un apvienošanās saistīto situāciju Latvijā**

Pēc Centrālā statistikas biroja datiem, Igaunija ir galvenais Latvijas partneris ārvalstu investīciju ziņā uzņēmumu pamatkapitālā, kurai seko Dānija, Zviedrija un Norvēģija. 2006 un 2007 gadā, apvienošanās un saplūšanās darījumu skaits pieauga.

Tiek sagaidīts, ka M&A darījumi 2008 gadā tiks veikti finanšu, informācijas tehnoloģiju, mazumtirdzniecības un medicīnas sektoros.

### **Igauņu un latviešu valodas ietekme uz starptautisko sadarbību**

Cilvēku dzimtā valoda ietekmē komunikāciju arī gadījumos, kad tā notiek svešvalodā.

Autore uzskata, ka vislielākie pārpratumi, kas var ietekmēt komunikācijas procesu ir tas, ka igauņu valodā neeksistē vīriešu un sieviešu dzimte, kā arī tas, ka neeksistē gramatiskais nākotnes laiks.

Latviešu valodas īpatnības, kas var ietekmēt komunikāciju ir īpašības vārdu noteiktās un nenoteiktās galotnes, kuras ne vienmēr ir iespējams precīzi izteikt svešvalodā.

## **Praktiskā daļa**

### **Latviešu un igauņu kultūras atšķirību, kas ietekmē darījumu attiecības apvienošanās un saplūšanas kontekstā, analīze**

#### **Anketa pēc Hofstedes dimensijām**

Vispārīgās tendences ir šādas:

- 5) 60% latviešu un igauņu ir atbildējuši vienādi;
- 6) 35% igauņu un Igaunijā dzīvojošo krievu atbildēja vienādi;
- 7) 40% latviešu atbildēja līdzīgi Latvijā dzīvojošajiem krieviem;
- 8) 62% Latvijā dzīvojošo krievu atbildēja līdzīgi Igaunijā dzīvojošajiem krieviem.

Apkopotie rezultāti parāda, ka latvieši un igauņi ir mazāk varas distances orientēti nekā krievi. Igaunu un latviešu starpā bija viszemākā izvairīšanās no nenoteiktības, bet Latvijā dzīvojošo krievu starpā tā bija visaugstākā. Gan Latvijā, gan Igaunijā iegūtās atbildes norāda uz izteiktu individuālismu, kas dominē pār kolektīvismu. Igaunu atbildes norādīja uz feminīnāku vērtību orientāciju nekā Igaunijas krieviem, latviešiem vai Latvijas krieviem. Vēl bija novērojama tendence uz universālismu un dabiskumu. Tāpat rezultāti parādīja, ka latvieši un Latvijas krievi organizāciju uztver kā formālu struktūru ar noteiktu hierarhiju, bet igauņi un Igaunijas krievi to uztver kā cilvēku kopu, kuras iekšienē notiek sadarbība.

#### **Kultūras atšķirību ietekme uz M&A. Lauma Lingerie izpēte**

2008. gada janvāra sākumā autorei bija iespēja intervēt Lauma Lingerie ģenerāldirektori Lindu Matisoni. Intervijas laiks – 2 stundas.

Igaņu kompānija Alta Capital Partners, kas iegādājās Lauma Lingerie, ir viena no vispieredzējušākajām kompānijām, kas nodarbojas ar M&A Latvijā. Viņu komanda ir saliedēta un labi izglītota gan par M&A jautājumiem, gan arī pilnīgi informēta par kultūras atšķirībām, kas varētu radīt problēmas Latvijas kontekstā.

Linda Matisone uzsvēra, ka kultūras atšķirības šajā gadījumā nav radījušas īpašus šķēršļus, jo padomes locekļi ir gandrīz visi krievvalodīgi, tāpat kā Lauma Lingerie vadība. Krievu valoda tika izmantota kā komunikācijas valoda.

Pēc darījuma, tika mainīta uzņēmuma darbības stratēģija no ražojoša uzņēmuma uz vairāk uz tirdzniecību orientētu uzņēmumu. Izmaksu samazināšanas nolūkā daļa ražošanas tika pārvietota uz Baltkrieviju un Ķīnu.

Tika mainīta produktu izstrādāšanas stratēģija, kā arī dizaina stratēģija, kuru tagad vada pazīstams franču dizainers.

Vietējai uzņēmuma vadībai tika dotas pilnvaras komunikācijas stratēģijas izstrādei un realizācijai. Tāpat pēc darījuma tika izveidota internet mājas lapa, kas elektroniski rada jauno Lauma Lingerie tēlu.

### **Secinājumi un ieteikumi**

Autora sākumā izvirzīta hipotēze, ka kultūras atšķirības ietekmē saplūšanas un apvienošanas procesu ir darba gaitā apstiprināta.

Igaunijas investoriem, kas veic M&A darījumus Latvijā, būtu jāņem vērā sekojošais:

1. Latvija un Igaunija ir zemas varas distances valstis, tomēr Latvijā statusa simboli tiek izmantoti vairāk.
2. Latvija un Igaunija ir zemas izvairīšanās no nenoteiktības valstis. Tomēr jāņem vērā, ka Latvijas darba ņēmēji ilgāk strādā vienā darba vietā pat ja darbā ir augsts stresa līmenis.
3. Latvija un Igaunija ir augsta individuālisma valstis, tomēr jāņem vērā, ka Latvijas sabiedrība ir nedaudz tradicionālāka par Igaunijas sabiedrību.

4. Latvija un Igaunija ir augstas femininitātes valstis, tomēr Latvijā valdošās vērtības ir nedaudz maskulīnākas nekā Igaunijā. Tas nozīmē, ka nauda un vara Latvijā tiek vērtētas augstāk.
5. Organizācijas kultūra Latvijā un Igaunijā tiek uztverta atšķirīgi. Latvijā tai ir hierarhiska un formāla struktūra, bet Igaunijā tā ir atvērtāka un neformāla.

## **List of Annexes**

**Annex N.1 Documentary page**

**Annex N.2 Questionnaire**

**Annex N.3 Diagrammes prepared by the author**

The master thesis “Culture impact on mergers and acquisitions carried out by Estonian companies in Latvia” is worked out at the faculty of Economics and Management of University of Latvia in the professional MBA program International Business.

With my signature I'm certifying that the research is made single-handed, the information sources shown in the work are only used and the electronic copy is convenient to printed version.

Author: Alise Barvika

I'm recommending the work to the presentation  
Supervisor: professor, Dr.oec.Ērika Šumilo

Reviewer:

The work is submitted at the Department of International Economics and Business  
06.05.2008.

Secretary:

Work is presented in the meeting of master end probation committee  
....06.2008. protocol N., evaluation  
Secretary of committee:

**Culture impact on mergers and acquisitions  
carried out by Estonian companies in Latvia**

Professional MBA  
programme  
2<sup>nd</sup> Year student  
(stud. ID Nr Teol 000024)

*Alise Barvika.*  
(given name, surname)

Academic supervisor

(degree, position)

.....  
(given name, surname)

## *Annex N.2*

### **Questionnaire 1**

**Power distance (A-LPD;B-HPD; LPD=Low Power distance, HPD=High Power distance)**

Please choose the answer that seems more true:

I

- A. Freedom can only be achieved if individual equality is respected.
- B. Freedom can be achieved by servitude and money

Answer:

II

- A. To gain power you need to be a good leader and to have a good knowledge
- B. Power can be gained by combatting your competitors

Answer:

III

- A. Wealth means happiness and satisfaction.
- B. Wealth usually comes from inheritance and crime and not always leads to happiness.

Answer:

IV

- A. Respect is gained through liking.
- B. Respect is gained mostly with age.

Answer:

V

- A. Young leaders are better because they are more updated and are more enthusiastic.
- B. Old leaders are preferred because they are more competent.

Answer:

VI

- A. Showing status symbols is a sign of stupidity and should be avoided.
- B. Showing status symbols is normal, people should show what they have earned.

Answer:

VII

- A. World is a place full of opportunities that anyone can use.
- B. World is a place where only the powerful are well-off.

Answer:

VIII

- A. The best boss is always listening to his employees, simple and democratic.
- B. The best boss should be a bit authoritarian and keep his distance towards the employees but also be emotional sometimes.

Answer:

IX

- A. Director should have a salary that is not bigger than 10 times the smallest salary paid by the company.
- B. Director can have a salary that is bigger than 20 times the smallest salary paid by the company.

Answer:

X

- A. Blue collars are paid as much as the white collars.
- B. Blue collars are paid less than good office workers.

Answer:

## **Questionnaire 2**

**Uncertainty avoidance (A=LUA; B=HUA; LUA=Low uncertainty avoidance, HUA=High uncertainty avoidance)**

Please choose the answer that seems more true:

I

A. In my country work stress is rather low.

B. In my country work stress is rather high.

Answer:

II

A. People are not showing their emotions openly.

B. People are expressing their emotions freely.

Answer:

III

A. It is normal that people are from time to time looking for better job offers.

B. People have the tendency to work for one employer for a long time.

Answer:

IV

A. Good employees are not necessarily loyal to the company.

B. Good employees are loyal to the company.

Answer:

V

A. In my country it is rather easy to introduce changes in the company.

B. In my country it is rather difficult to introduce changes in the company because of the resistance.

Answer:

VI

A. People are mostly good and trustworthy.

B. Many times people are betrayed.

Answer:

VII

- A. Foreign managers are good.
- B. Employees are suspicious about foreign managers.

Answer:

VIII

- A. It is ok if a professor says that he does not know something about his subject.
- B. Professor should never say that he does not know something about his subject.

Answer:

IX

- A. Dialects show cultural richness.
- B. Dialect shows that the person is not educated.

Answer:

X

- A. Immigrants are tolerated.
- B. Immigrants are not welcome.

Answer:

XI

- A. Punctuality and precision has to be learned.
- B. Punctuality and precision is obvious and come naturally.

Answer:

### Questionnaire 3

**Individualism and collectivism (A=LI; B=HI; LI=Low individualism; HI=High individualism)**

Please choose the answer that seems more true in your culture:

I

- A. Salary and work conditions are the most important aspects when choosing a job.
- B. Good time management and enough time for personal life is as important as salary.

Answer:

II

- A. Employees are chosen according to their education.
- B. Employees are chosen depending on their performance in previous jobs.

Answer:

III

- A. Best managers are those who have worked for the company for a long time.
- B. Best managers have a tendency to be headhunted by other companies.

Answer:

IV

- A. People need work for self realization.
- B. People work for the company basically for getting paid.

Answer:

V

- A. Interesting work is more important than earnings.
- B. Earnings are more important than interesting work.

Answer:

VI

- A. Successful career depends on good contacts.
- B. Successful career depends on individual abilities and skills.

Answer:

VII

- A. Group decisions are preferable.
- B. Individual decisions are more efficient

Answer:

VIII

- A. Life is about duties.
- B. Life is about enjoying.

Answer:

IX

- A. People prefer to live close to their families.
- B. People often live alone and single parents are common.

Answer:

X

- A. People stay closely related to their families for all their life.
- B. Children leave home as soon as they grow up and gain some independence.

Answer:

XI

- A. People usually marry people that are in the right age and having the right social status.
- B. Partner choice has no predefined criterions.

Answer:

#### **Questionnaire 4**

**Masculinity and femininity (A=LMAS; B=HMAS; LMAS = Low masculinity; HMAS = High masculinity)**

Please choose the statements that are more true in your culture:

I

- A. Relationships at work are important.
- B. Recognition at work is important.

Answer:

II

- A. Social security and living environment are important.
- B. Earnings and career development are important.

Answer:

III

- A. Men and women have similar values.
- B. Men and women have different values.

Answer:

IV

- A. People work to live.
- B. People live to work.

Answer:

V

- A. It is important who you are and what you believe in.
- B. It is important what you do and how you act.

Answer:

VI

- A. Men and women should have similar duties at home and at work.
- B. Men should earn money and women should take care of children and household.

Answer:

VII

- A. Many people live together without getting married.
- B. There are many quick marriages.

Answer:

VIII

- A. Ideal family partner likes home and children.
- B. Ideal family partner is successful.

Answer:

IX

- A. Partners not necessarily need to have common interests.
- B. Same interests is a good bases for a couple.

Answer:

X

- A. Wife usually decides how many children a family should have.
- B. Husband usually decides how many children a family can afford.

Answer:

XI

- A. Home made products are better.
- B. Foreign made products are prefered.

Answer:

XII

- A. Welfare society is ideal.
- B. Performance society is ideal.

Answer:

XIII

- A. Managers less often sacrifice their family life.
- B. Managers often sacrifice their family life.

Answer:

XIV

- A. It is common that men and women talk about politics.
- B. Men discuss politics more than women.

Answer:

## Questionnaire 5

### Universal versus particular

I

You are riding in a car driven by a close friend. He hits a pedestrian. You know he was going at least 35 miles per hour in an area of the city of the maximum aloud speed is 20 miles per hour. There are no witnesses. His lawyer says that if you testify under oath that he was only driving 20 miles per hour, it may save him from serious consequences. What right has your friend to expect you to protect him?

- 1a My friend has a definite right as a friend to expect me to testify to the lower figure.
- 1 b He has some right as a friend to expect me to testify to the lower figure.
- 1 c He has no right as a friend to expect me to testify to the lower figure.

II

Imagine that you are the manager of a company that organizes weddings. You are making a database for including all companies you are collaborating with for organizing weddings. Your friend has just opened a wedding dress shop but you know that she is importing cheap dresses from China. You know that some of her clients were unsatisfied after having bought dresses there.

Do you think your friend has the right to expect you to include her company in your database?

- 1 a It is obvious that she has such a right.
- 1 b She can expect it but my reaction is not sure.
- 1 c She would never expect something like that from me.

Would you include her shop in your database if you know that she is not providing a very good service?

- 1d Yes
- 1e No

Answers:

III

Imagine that you are a member of the board of Ventpils Nafta. One of your best friends has a gas station in a small town and it is the only gas station there. During the board meeting it is decided that the company will build two new gas stations in this town. If you tell this information to your friend today, he could close the business with no losses. The next day after the meeting you meet your friend on the street.

Do you think your friend has the right to expect you to tell him?

1 a It is obvious that he has such a right.

1 b He can expect it but my reaction is not sure.

1 c He would never expect something like that from me.

Would you tell him this information taken into account your obligation to keep company secrets?

1d Yes

1e No

Answers:

## Questionnaire 6

### Group and Individual

There are several statements about how the life quality of individuals could be improved. Choose those that are more true for your culture?

I

- A. Alcoholics are people who are lazy and if their life conditions are bad then it is their own fault.
- B. Alcoholics are people who have been unlucky and society can do much for integrating them and making their life better.

Answer:

II

- A. Collection and division of waste is the responsibility of municipal services.
- B. Citizens can participate in waste management by dividing the major types of waste in their households.

Answer:

III

- A. People are born to develop their personalities, enjoy their lives and be free.
- B. People are born to be happy which can only be achieved by making other people happy.

Answer:

IV

From your experience, what is more common to your culture:

- A. To work individually without a control need. People are their own bosses. Work is better done when other people are not interrupting this process.
- B. It is better to work in a group because then there are many opinions and people's work can be more easily followed.

Answer:

## **Questionnaire 7**

### **Cultures and environment**

I

What is a more common idea in your culture?

- A. We are living in a natural environment and natural forces and weather has a big impact on our lives and on how we feel.
- B. We are living next to the nature and we are doing a lot to make this environment more enjoyable even if this sometimes includes limiting the nature.

Answer:

II

Which of these answers suits you better?

A. I am deciding on my own where to go and what to do.

B. I am in a flow of events that not always I can control or predict.

Answer:

## **Questionnaire 8**

### **Organizational structure**

Which of the following definitions seems more logical to you:

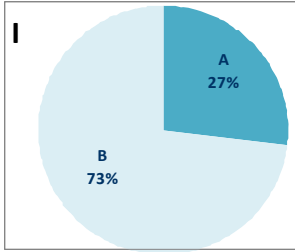
A. Organization is a creation with a clear and stable structure and hierarchy.

B. Organization is a group of people that are having different functions and are cooperating between themselves.

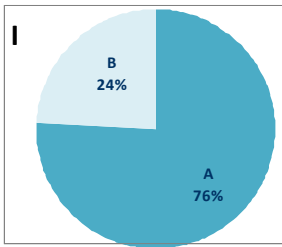
Answer:

**Diagrammes prepared by the author.**

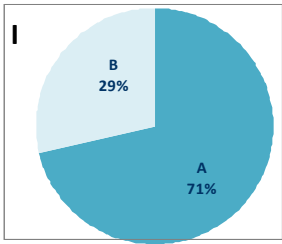
1. Question part. Power distance



All answers together

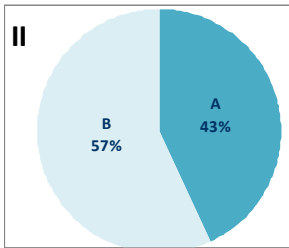


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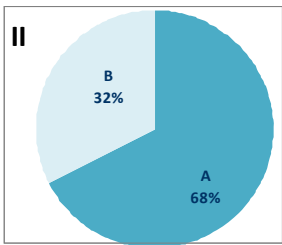


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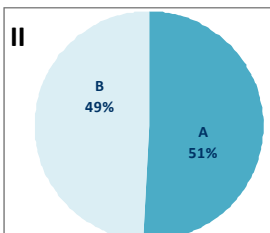
2. Question part. Uncertainty avoidance



All answers together

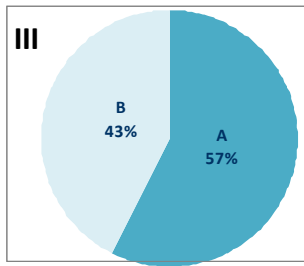


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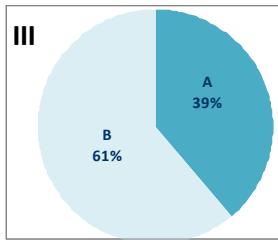


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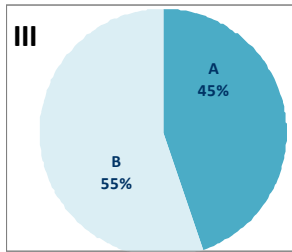
3. Question part. Individualism and collectivism



All answers together

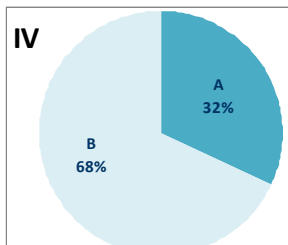


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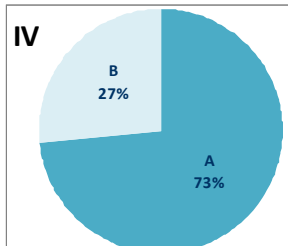


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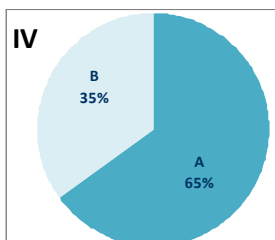
4. Question part. Masculinity and femininity.



All answers together

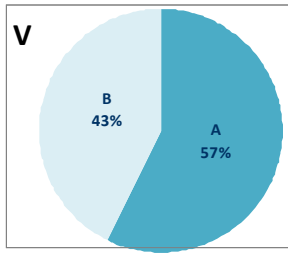


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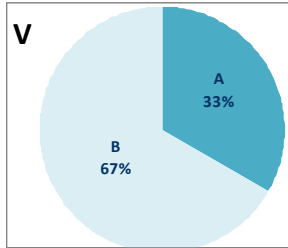


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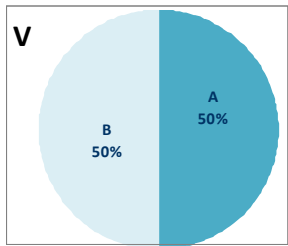
5. Question part. Universal versus particular



All answers together

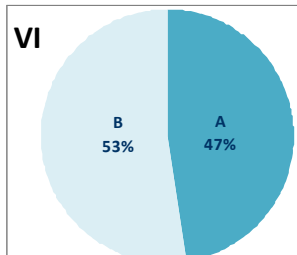


All answers from Estonia together

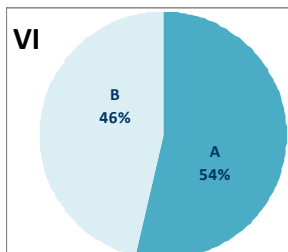


All answers from Latvia together

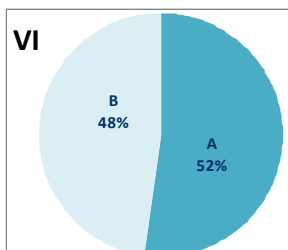
6. Question part. Group and individual



All answers together

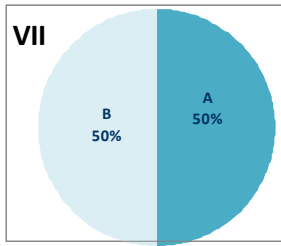


All answers from Estonia together

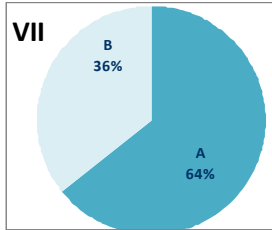


All answers from Latvia together

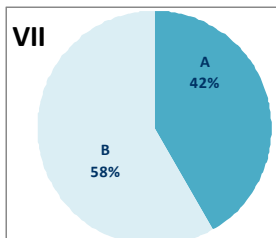
7. Question part. Culture versus environment



All answers together



All answers from Estonia together



All answers from Latvia together