

A PLURALISTIC PERSPECTIVE ON INTERCULTURAL DECISION-MAKING IN M&AS

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Abstract

Nowadays companies involved in M&As face many significant challenges because of turbulent environments and a competitive global economy. Among these challenges are intercultural issues in decision making. This means that top managers with different mental models (caused by different backgrounds, including cultures, and experiences) and decision power interact in the M&A processes. Mental models include knowledge, values, beliefs, emotions, norms, goals. While there have been a number of studies on the effect of decision making on the outcomes of M&As, the role of intercultural issues in decision making has been neglected. Research on decision making is at the present time undergoing rapid changes due to the fact that decision making occurs in dynamically changing contexts. From previously being much focused on models and approaches with an origin in economy, much of the present day research finds its inspiration from interdisciplinary approaches concerned with incorporating more of the context that the decision making takes place in. This context includes intercultural aspects of the decision making and social aspects of the situation top managers act in. By improving our understanding of the intercultural aspects of decision making the present paper contributes to the integration of theories, concepts and results from different research traditions and in this way helps to better our understanding of the decision making. Our aim is to provide a more realistic understanding of the conditions for intercultural decision making.

Key words: mergers and acquisitions (M&As), decision making, post-M&A integration, intercultural, cultural differences.

Introduction

Mergers and acquisitions (M&A) are both aspects of strategic management, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.

M&As are clearly the most important forms of change in the modern economic world, a complex area who requires a more pluralist approach. The entire M&A activity is split into two interactive processes: namely, the decision-making process in the pre-transaction stage and the integration process in the post-transaction stage. Our goal is to understand the causality between decisions taken and performance outcomes.

Decision-making can be defined as the cognitive process resulting in the selection of a belief or a course of action among several alternative possibilities. Every decision-making process produces a final choice that may or may not prompt action. Decision-making is the study of identifying and choosing alternatives based on the values and preferences of the decision maker. Decision-making is one of the central activities of management and is a huge part of any process of M&A.

Trompenaars and Asser (2010) argue that being able to dissect human activity and communication (decision making, negotiation, and presentation) and organize its intent and results on a map created on the basis of seemingly opposing value orientations is not just instructive, visionary and motivational but is also a serious attempt to identify and measure the value of human relationships and trust in merger and acquisitions and many other reorganizations and human relationships.

We might contend that studying intercultural issues in decision making processes during mergers and acquisitions needs a cross disciplinary approach. Cultural diversity in organizations can be both an asset and a liability and, in sum, the presence of synergy is as an important determinant of value creation in a merger (Warter, Warter 2014a; Warter, Warter 2015e).

Some scholars (e.g. Hofstede et al. 2010) emphasise that management decisions about international ventures are based solely on financial considerations.

Investor's decision to acquire, sell or to carry out projects in a particular area, region or country is not only due to purely economic, commercial or financial reasoning, as Zait et al. (2014) remark. In such operations, meeting among businessmen, managers and other professionals in the field is, first of all, meeting in specific circumstances, among more or less different cultures.

Decision making is a process that in a complex manner is shaped by social factors such as identities, values, and influences. The quality of decision making in M&A depends on the identity of the people involved in decision making, the ability to create a shared vision and to share common values, and the ability to socially influence the stakeholders. According to Rkibi (2009), it seems that the intercultural management is an “issue” of organization, information, communication, decision making, human resource management, financial management, production management and marketing. A similar view (Moore, Woodrow 2010) reveals that intercultural negotiation is a process initiated by individuals, groups, or organizations from different cultures that enables them to reach mutually acceptable decisions and agreements.

Sharing of diverse perceptions and cultural background can be used to enhance problem solving and improve decision making. Using information and technology to promote cooperation among disparate elements in human systems creates something better than existed by separate endeavours (Harris 2004).

Understanding how top managers make decisions in M&As and the intercultural issues that influence decision making become critical. It has been shown that intercultural issues have an impact on how top management make decisions regarding the M&A processes. The use of senior managers from both firms not only enables the combined firms to capture the best talent from both organizations but also to give employees from both firms comfort in knowing that there are decision makers who understand their respective situations, concludes DePamphilis (2012) in a recent study.

In order to intervene and reduce possible negative effects of intercultural issues on decision making we need, however, to go beyond the notion of a general effect of cultural differences and instead explore how and when or at which M&A phase intercultural issues influence the decision process. Depending on how intercultural issues influence decision making, different approaches may be more or less effective.

While no review of these topics can state to be comprehensive, we try to present a good variety of literature approaches representing not only scholarly journals but also some important practitioner-oriented papers from 1997 to 2015. Most of the articles are from 2010 to 2015 (from several databases, including Emerald, ProQuest, Sage, Scopus, Springer, Web of Science, and Wiley) selected in order to answer these questions related to intercultural decision making: (i) Which approaches were prevalently applied? (ii) Which evaluating criteria were paid more attention to? (iii) Is there any contradiction of the approaches?

Therefore, our aim is to provide a more realistic understanding of the conditions for intercultural decision making. Our theory is that the decision-making process in the pre-transaction stage of M&A is strongly influenced by intercultural issues. This idea is based on the extensive review of literature we conducted at the beginning of this paper. The paper investigates and discusses major studies on intercultural decision making revealing a wide spectrum of relevant data and analysis tools.

1. Decision making specific issues

It is not difficult to understand that different factors have an effect on managers' decisions. Much evidence points towards two main decision making processes:

- the generation of alternatives, which represents the creativity oriented process,
- the evaluation of alternatives, which represents the analytical dimension of decision making.

Raiffa et al. (2007) take a decision-making perspective and try to integrate four disciplinary approaches:

- decision analysis: a prescriptive approach,
- behavioral decision making: a descriptive approach,
- game theory: an interactive prescriptive approach,
- negotiation analysis: mostly prescriptive.

Other authors (e.g. Hofstede et al. 1997) divide the decision-making process into three activities: awareness, analysis, action. This is not a chronology, but the steps alternate.

From a practical point of view, it is important that the decision-making procedure ends with a clear decision. For those who are involved in the decision-making procedure and for those who are affected by the decision, it is important to know whether a decision was made and how it has made (Grünig, Kühn 2013). In turn, Meglio (2010) contends that in the strategic decision-making process category, for instance, can be distinguished among mode of entry in international or diversification context, target selection and the transition from alliances to acquisitions. In the integration process, the author differentiates among integration approaches, knowledge transfer and the human-related factors. In the performance section, the author arranges studies as measuring overall acquisition performance, innovative performance or acquisition success.

Decision making is a step-by-step process, an evolutionary process. Selart and Patokorpi (2009) show that organizational decision making does not only concern future consequences and preferences (logics of consequences) but also involves situations, identities, and rules (logics of appropriateness).

By making decisions the organization constantly confirms or redefines its own identity, as well as the identities of its members. Organizational aspects also need to be included appropriately into the decision-making process, as well as the expertise and topical understanding of the relevant stakeholders (Royer 2013).

Takemura (2014) contends that for decision-making for which the result is important, making the decision based only on one value is extremely dangerous considering that people hold multidimensional values. To produce a “good decision,” it is important to regard the decision comprehensively by focusing on a plurality of values. From a prescriptive or normative perspective, it is important to consider values pluralistically and attempt to combine or trade off different values. Applying such a perspective might result in the abandonment of consistent, rational decision-making based on utility maximization. The pluralistic perspective, nonetheless, is considered necessary for good decision-making. Use of formal rationality in any manner would not help solve a problem of this type. However, Warter and Warter (2015b) remark that the shortage of communication channels or the amateurish use of communications can become a barrier in negotiation, decision-making, and planning.

Success depends on decisions in different M&A phases. To successfully manage M&As, managers need to be aware of these complex relationships – there are no simple solutions to complex problems (Bauer, Matzler 2014). In a processual approach, Hitt and Collins (2007) consider that the process utilized in making strategic decisions is vitally important for decision effectiveness. Firms that develop a decision-making process based on reliable, diverse knowledge are more likely to make high-quality strategic decisions. Combining this decision-making process with a pro-stakeholder culture can improve opportunity recognition in areas related to stakeholders’ ethical concerns. In turn, firms focused on business ethics can enhance their performance.

In a different approach, Trompenaars and Asser (2010) have developed a dynamic measure on a dual axis grid of two opposing value orientations that describes the value (current and ideal) of human decision-making ability.

Hitt and Collins (2007) accentuate the complexity of decision making process. They consider that executives involved in making strategic decisions are concerned with how the resulting actions will affect firm performance. Typically, the common goal of strategic leaders is to develop and sustain a competitive advantage (i.e., one which cannot be easily duplicated by competitors). Developing such a competitive advantage becomes increasingly difficult in complex business environments, however, as myriad stakeholders strive to influence decisions made inside the firm.

A similar point of view but focused on culture reveals that in multi-cultural group decision-making a myriad of possible cultural configurations exist (Hofstede et al. 1997). The views of European private equity firms on the determinants and rules of decision-making usually do not differ materially from those of private equity firms in the United States of America and Canada (Broere 2014).

The decision making process can be perceived from different angles. Wethey (2013) considers that in the study of decision making, it would be a serious weakness not to take people factors and profiling seriously. Lack of curiosity – in general – is a fault. Corporates are notorious for underestimating the importance of personality, nationality, culture, religion etcetera. Profiling is standard in recruitment, but tends to be left behind in active service, and when teams are being formed. Why people act the way they do, why they take the decisions they do, why some people do it this way, and others that – these are all endlessly fascinating questions, which we should look at now.

Decision-making techniques that rely on cognitive conflict will therefore be quite abhorrent to members of collectivist cultures because, from their perspective, these techniques require them to be rude and to destroy interpersonal relationships, as Hofstede et al. (1997) contend. Typically, when tensions mount in a group, members of collectivist cultures will be evasive rather than confrontational. This will be insulting to individualist interlocutors, who expect to be told honestly what the matter is. So, there is a fair risk that in a meeting between members of individualist and collectivist cultures, they will mutually insult each other by their style of communication. On the other hand, if a member of a collectivist culture is forced to interact with out-group people, he or she may not hesitate to engage in fierce conflict.

Selart and Patokorpi (2009) also reflect upon this phenomenon and claim that managers also need to realize that organizational decision making concerns both future consequences and preferences (logics of consequences) as well as situations, identities, and rules (logics of appropriateness). This implies that both outcome and process are important features of decision making in organizations. Managers need to apply shared visions as a forceful means for creating involvement among participants in the decision making process. This means that not only the nature of the vision is important but also the means for communicating it effectively both within the organization and to the outside world.

Another closely related and important feature of decision processes is the importance of differentiating positive and negative emotions. It has been suggested by Tran, Páez and Sánchez (2012) that approach positive emotions were associated with and a predictor of improved decision– making

processes, but achievement positive emotions were not. Antagonistic negative emotions were associated with and a predictor of poorer decision-making processes, but negative resignation emotions were not.

While there have been a number of studies on the effect of various decision procedures on the level of conflict and on decision quality and acceptance, the role of cultural diversity and decision support systems, and the interaction between the two, has hitherto been neglected (Hofstede et al. 1997). We might then contend that studying intercultural issues in decision making processes during mergers and acquisitions needs a cross disciplinary approach. We support the idea that researchers should develop and apply interdisciplinary concepts to unify the field of research. We can, also, assert that the reality of decision making is basically interdisciplinary, and researcher should aim to this kind of approach. Researchers have to bridge the gap between theory and practice. Practitioners must focus on action-oriented thinking and encourage theoreticians to be more realistic and less reductionist in an interdisciplinary approach (combining for example in decision making research prescriptive and descriptive approaches).

Research on decision making suggests that intercultural issues are a very important element of decision making. Many decision makers are often unaware of this fact.

2. Influence of intercultural decision making on M&A success

Several decision making scholars and academics have commented about the deficiency of research on decision-making. The assignment of the decision maker tends to be reduced to a choice between ready-made alternatives, with no or little consideration of intercultural issues. According to Boyle and Winter (2010), prior to spending considerable resources on putting together meaningful due diligence, it is imperative to ask ourselves some major questions regarding the decision under consideration. What, explicitly, do we hope to achieve by the transaction? What is the end game and what are the alternatives? Why is the deal better than a greenfield operation or some other business arrangement? If the transaction is to be a joint venture, are you merely paying tuition for a formidable competitor?

On the basis of various experts and practitioners opinions, Cultural Due Diligence includes involvement and decision-making (Spedding 2008).

In an inside look at the intercultural aspects Hofstede et al. (2010) highlight that power distance will affect the degree of centralization of the control and decision-making structure and the importance of the status of the negotiators. In line with these scholars, our opinion is that decision making and sense making may be looked upon as complementary processes.

Regarding the influence of intercultural issues on M&A success or failure, Warter and Warter (2015c) remark that process and outcome goal orientations are associated with different personal beliefs about the world.

Studies have confirmed that one of key reasons mergers under deliver or fail outright is poor communication. This unfortunately is a problem in almost every merger, and the primary reason is always that information and decisions can be slow to develop, so people get anxious as a result (Whitaker 2012). One of the universal characteristics of negotiations is a control and decision-making structure on either side by which negotiators are linked to their superiors or their constituency (Hofstede et al., 2010). Other scholars (e.g. Weber, Drori 2011) remark that the strategic and financial decisions by top executives need to be considered simultaneously with the role of the individual in the implementation process to achieve the expected M&A performance.

Success depends on decisions in different M&A phases. It is easy to make the incorrect decisions in the pre-merger stage but trying to fix a failed integration, in the post-merger stage, is a very difficult task (Warter, Warter 2015d; Warter, Warter, 2015f). In turn, the recent article (Gomes et al. 2013) highlights that if both strategic fit (synergy potential) and organizational fit factors (cultural differences and national culture of the acquiring company) are known premerger, and are taken into account in the choice of integration approach post-merger, M&A performance is superior to those deals that did not consider premerger factors for post-merger decisions.

An interesting view is revealed by Viegas-Pires (2013). The author shows that integration decisions and actions may affect the nature of the cultural challenge at the global level. According to Spedding (2008), CDD involves sound leadership and management. It offers decision-makers in both organizations:

- comprehensive, data-based predictions of culture clash problems that will occur within the merger process;
- the relative priority of those problems;
- recommendations on how to eliminate their cause or minimize their impact before they occur.

The results of the research in this regard are clear: CDD is overlooked at the peril of the success of the merger or acquisition.

It is also important to look at the positive synergies from the cultural differences, such as those of diversification, knowledge transfer and improved managerial quality, advantages in finding a path to a successful M&A. Although most of the researchers point to cultural determinants of M&A, there is not a general common opinion of the main M&A success factors (Warter, Warter 2014b; Warter, Warter 2015a). Understanding how

cultural determinants of M&A influence decision making thus becomes important if we seek to improve decision making in cross-border M&As. It is, therefore, difficult to conclude that cultural differences must lead to worse decisions. Much evidence points towards the fact that a central feature of the decision process seems to be the intercultural issues, a key driver to success in M&As.

Conclusions

We can state that M&A research has underestimated the roles of individual managers and employees. Many intercultural issues have to some extent been neglected in research on decision making. Individuals' mind-sets and interests influence the decision processes and the outcome of M&A. Our conclusion is that findings provide evidence that a serious reflection on decision-making process is needed.

Intercultural decision making is a process that supposes meeting in specific circumstances, among more or less different cultures. Neither scholars nor practitioners have a comprehensive understanding of the intercultural factors involved in the M&A process and their influence on decision making.

Decision makers should let themselves be guided by goals, asking themselves "Why?", "How?", and "When?", rather than limiting themselves to a pre-established set of alternatives while making decisions. To be able to focus on performance in M&As as a driving force, also other peoples' interests, values, beliefs etc. must be taken into account by the decision makers. The sharing of diverse perceptions, emotions, identities and cultural background can be used to enhance problem solving and improve decision making.

However, decision makers are unable to fully control the decision process since the impact of intercultural issues is difficult to foresee. Managing intercultural issues becomes a key factor in decision making. This implies that both outcome and process are important features of decision making in companies involved in M&As.

Finally, it is interesting to look at the whole decision making process, without making the distinction between recognizing intercultural issues and others factors that influence success in M&As. It is the top management that, in fact, shoulders the chief responsibility for designing collective actions, such as decisions in M&As, forcing companies to develop their decision making processes.

Research on decision making is at the present time undergoing rapid changes due to the fact that decision making happens in dynamically changing circumstances. The result of this paper suggests that the effects of intercultural issues on the decision making process should be investigated more in depth in future studies.

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