

2015

# A comprehensive analysis of post-acquisition integration challenges



Student: Tiliban Narcisa-Elena

Supervisor: Kuada John

Number of words:

Submission date: 5/11/2015

## **Acknowledgments:**

I would wish to acknowledge the contribution of my supervisor John Kuada, who offered me valuable indications about how to prepare this master thesis. I also wish to thank him for the moral support and encouragements.

Last, but not least, I wish to thank my boyfriend for being understanding and supportive and for preparing me the much needed food.

## Table of contents

LIST OF TABLES AND FIGURES .....	4
ABSTRACT .....	5
CHAPTER 1 .....	6
1. Introduction .....	6
2. Subject choice justification .....	6
3. Literature gap .....	7
4. Thesis' structure .....	9
5. Summary .....	9
CHAPTER 2 .....	10
1. Introduction .....	10
2. FISI classification.....	10
3. Presentation of the search method of theoretical and empirical studies .....	12
4. Presentation of the thesis methodological perspective.....	13
5. Summary .....	13
CHAPTER 3 .....	14
1. Introduction .....	14
2. First research question.....	14
3. Second research question .....	18
4. Third research question .....	23
5. Summary .....	27
6. Articles' review .....	27
CHAPTER 4.....	48
1. Introduction .....	48
2. Consultancy firms' presentation.....	48
3. Reports' content .....	48
4. Consistency determination of theoretical, empirical and consultancy reports' findings .....	51
5. Summary .....	56
CHAPTER 5.....	59
1. Introduction .....	59
2. Case studies presentation .....	59

2.1	Wavin Group (Nordisk Wavin) - Vilnius Polymeric Goods Factory (VPGF) .....	59
2.1.1	Challenges encountered by Nordisk Wavin in Wavin Baltic .....	60
2.1.2	Solutions implemented by Nordisk Wavin in Wavin Baltic.....	61
2.2	Aalborg Industries - Vinashin Group.....	61
2.2.1	Challenges encountered by Aalborg Industries in Aalborg Industries Vietnam.....	63
2.2.2	Solutions implemented by Aalborg Industries in Aalborg Industries Vietnam .....	63
3.	Case studies analysis .....	64
4.	Summary .....	69
CHAPTER 6.....		70
1.	Introduction .....	70
2.	MBI model presentation and interpretation .....	70
3.	The presentation and interpretation of Hofstede's national cultural dimensions.....	74
4.	Conclusions and recommendations .....	80
Limitations .....		83
References: .....		84
Annexe 1: .....		87
Annexe 2: .....		88
Annexe 3: .....		102

## LIST OF TABLES AND FIGURES

<i>Table 3.1 – Highlight of integration problems and solutions in the theoretical literature...</i>	<i>17</i>
<i>Table 3.2 – Highlight of the integration problems and solutions in empirical literature....</i>	<i>20</i>
<i>Table 3.3 – Highlight of the integration problems depending on the industry type.....</i>	<i>24</i>
<i>Table 3.4 – Highlight of the integration solutions according to the industry type.....</i>	<i>26</i>
<i>Table 4.1 – Highlight of the integration problems and solutions in consultancy reports....</i>	<i>51</i>
<i>Figure 2.1 – FISI classification.....</i>	<i>10</i>
<i>Figure 6.1 – MBI model.....</i>	<i>72</i>

## **ABSTRACT**

While in the specialty literature of mergers and acquisitions the scholars have repeatedly tried to detect the factors of both: success and failure, they did not mention if these factors differ from industry to industry or they are similar among the industries. This study therefore aimed to contribute to the identification of challenges and solutions' particularities and similarities according to the industry type.

The data used in this thesis was qualitative. A number of 22 articles were selected, of which half belonged to the theoretical literature and the other half embodied the empirical one. In addition, three reports belonging to three different consultancy firms were brought into discussion. Their purpose was to verify the consistency of the results between themselves and conceptual and empirical literatures. Furthermore, two case studies of Danish companies were presented. The aim was to determine if Danish managers' approaches to deal with post-deal integration issues were consistent with the findings from this field.

As the results showed, a high degree of consistency was detected between the challenges of conceptual, empirical and consultancy studies. In solutions' case it was determined a lower degree of uniformity between these three types of literatures. In addition, it was noticed that multiple issues and solutions were the same for different industries, which led to the conclusion that were not industry dependent. As for the Danish managers' approaches to post integration, it was found out that most of the solutions implemented by them are in accordance with the current knowledge of this field. However, the difference was that they opted for the absorption integration approach and did not offered autonomy (as it was suggested in theoretical and empirical articles), nor followed the gradual approach of integration (from autonomy to absorption) or "selective integration" recommended in consultancy reports.

From a theoretical perspective, the contribution of the current thesis to the literature of mergers and acquisition comprised the identification of consistency between problems and solutions of conceptual empirical and consultancy studies, as well as their similarities or differences according to the industry type. The determination of steadiness between Danish managers' approaches used to solve the post integration issues and those presented in the three types of literatures, was another contribution. From a practical point of view, it provided recommendations on how the post integration process can be best dealt with.

# CHAPTER 1

## 1. Introduction

In the current chapter it can be found an explanation of the reason that led the author to choose the topic of challenges which firms come across during post-acquisition integration process. Then the gap in the specialty literature will be identified and the aim of the project will be introduced along with the research questions. This will be followed by the presentation of the thesis' structure. The final part of the chapter will comprise a summary of the main findings.

## 2. Subject choice justification

Since the second half of the 20<sup>th</sup> century, the usage of mergers and acquisitions (M&A) by firms as a mean for cross-border expansion, strategic renewal or for “*strengthening and maintaining their position in the market place*” increased significantly (Schuler & Jackson, 2001; Teerikangas et al., 2012).

Statistical data gathered by the Institute of Mergers, Acquisitions and Alliances (IMAA) show that worldwide announced M&A deals rose considerable from 1985 (around 3000 transactions) until 2000 (40 000 transactions), followed by a sharp decrease in the next two years. From 2003 until 2007 it can be noticed a gradual growth; 2007 being the peak of the growth with nearly 50 000 transactions. Starting with 2008 until 2015 it can be observed a fluctuating evolution in the number of the deals so that at the end of 2015 the expected amount of transactions reaches again the threshold of about 40 000 (as in the year 2000). (Thomson Financial, IMAA analysis, 2015-see Appendix 1)

Despite their widespread presence, numerous studies indicate that “*most M&A do not reach the sought after performance targets*” (King, Dalton, Daily & Covin, 2004; Zollo & Meier, 2008, Stahl & Voigt, 2008, Teerikangas et al., 2012). Moreover, a recent report (February 2015) of Harvard Business Review shows a failure rate for M&A of 70 % up to 90 % (Europe Business Review website).

Among the reasons that cause these failures can be encountered the issues related to the integration process, such as: **national and organizational differences** (Birkinshaw et al., 2000; Ranft & Lord, 2002; Quah and Young, 2005; Hitt et al., 2004; Schoenberg et al., 2007; Rashmi Haritwal and Ved Prakash, 2007; Kummer 2009; Abhijit & Hajro 2009; Vancea, 2011; Teerikangas et al., 2012; Caiazza & Volpe, 2015), **human resource issues** manifested

through resistance to change, uncertainty, loss of key personnel or low commitment (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Vaara, 2003; Epstein, 2004; Teerikangas et al., 2012; Garibaldi de Hilal , 2013; Ibid), **level of integration** (Ranft & Lord, 2002; Risberg 2003; Quah & Young, 2005; Abhijit & Hajro 2009; Teerikangas et al., 2012) and **speed or timing of integration** (Ranft & Lord, 2002; Epstein, 2004; Quah & Young, 2005; Savovic, 2012; Teerikangas et al., 2012).

If not managed properly, all these problems along with **poor or lack of communication** (Ranft & Lord Risberg, 2003; Hitt et al., 2004; Quah & Young, 2005; Vancea, 2011; Savovic, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015) can jeopardize not only the integration process but the success of the merger or acquisition itself. (Ibid)

Furthermore, the results of a M&A survey conducted in 2015 by KPMG LLP (which is an audit, tax and advisory firm in USA) revealed that 42% of the respondents indicated a **well-executed integration plan** as a success factor of a deal.

However, fulfilling the task of integrating two companies can be difficult considering that *“Integration is a complex process that requires a large number of activities and great attention to detail to create a new entity that can satisfy the overall strategic objectives of the partners”* (Caiazza & Volpe, 2015, p. 209).

By considering the above mentioned information, it is easy to understand why the author of this project found the integration process as a very interesting area of study. Therefore, a deeper research of challenges faced by the companies during the post-acquisition period will be undertaken.

### **3. Literature gap**

During the literature search the author of the project noticed that researchers of the M&A area have taken into discussion various elements in their quest to detect the faulty factors that lead to the failure of the integration process between two new combined companies.

Many of these studies have identified that the differences of both: national and organizational cultures are the one to blame for this failure. (Birkinshaw et al., 2000; Ranft & Lord, 2002; Quah and Young, 2005; Hitt et al, 2004; Schoenberg et al., 2007; Rashmi Haritwal and Ved Prakash, 2007; Kummer 2009; Abhijit & Hajro 2009; Sarala, 2010; Vancea, 2011; Teerikangas et al, 2012; Caiazza & Volpe, 2015). They say that, because the national culture is *“the collective programming of the mind and it is reflected in core values such as feelings of*



*right and wrong, good and evil, beautiful and ugly*” (Sarala, 2010, p.41) influences, automatically, the culture of an organization. When two organizations with two different set of minds, practices and working styles are brought together the probability for a conflict or “cultural clash” to be created is high. (Ibid)

Other studies supported the idea that mismanaging the activities related to human factor, such as: “*employee relations policies, job descriptions, performance evaluation structures, salary structures, benefit plans, pension or medical insurance policies*” (Chakrabarti & Mitchell, 2005, p.7) can lead to a clash of priorities, create ambiguities that cause resistance to change and therefore a failure of the integration process (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Vaara, 2003; Epstein, 2004; Teerikangas et al., 2012; Garibaldi de Hilal , 2013).

More interestingly, the study of Sarala (2010) revealed that the acculturation factor – organizational cultural preservation in the acquiring firm – contributes to the increase of the post-acquisition conflict.

However, it was not found any study that mentions if the challenges encountered by firms in the post integration process and the means used to overcome them vary from industry to industry or if there are similar problems and solutions among the industries. The above observations have encouraged the author of this thesis to explore the current level of knowledge in conceptual, empirical and consultancy literature about how to address issues of post-acquisition integration process. The author will try to fulfill this aim by answering the

**following research questions:**

1. What are the challenges of post-acquisition integration, according to the conceptual literature, how is the culture seen in this literature and what solutions for overcoming the issues are proposed by the researchers?
2. What are the stated issues and solutions in the empirical literature and what perspective of the culture is present in these studies? Based on the empirical findings, do companies follow in practice the proposed solutions of the theoretical literature?
3. What are the common and different issues faced by companies from diverse industries? Do the applied measures, for ensuring the success of integration process, change between industries? Can these actions be generalized and used universally, no matter the industry, or they need to be particularized?

#### **4. Thesis' structure**

In this project can be found six chapters and each of them has its own purpose.

For example, in *Chapter 1* the author introduced the reason why the topic of post-acquisition integration challenges was chosen, the gap of the literature and three research questions.

*Chapter 2* will expose the way that articles (which form the literature review) were searched and found. Also, it will be identified and presented the paradigm choice for the project itself.

In *chapter 3* will be submitted to analysis the three research question presented in the first chapter.

In order to either reinforce or contradict the findings of chapter 3, the author will introduce in three consultancy reports *Chapter 4*, which were written by two different consultancy firms from America and one from UK.

*Chapter 5* will comprise two case studies of two different Danish firms, which aim to determine to what degree Danish managers' approaches to post integration measures are consistent with the knowledge identified in theoretical, empirical and consultancy articles.

The discussions and the results' interpretation, as well as authors' recommendations will be found in *Chapter 6*.

#### **5. Summary**

To sum up, the author identified that the reason why 70 % up to 90 % of mergers and acquisitions fail is due to bad management of post-merger or acquisition integration process.

The problems related to cultural differences - national or organizational; post-deal employee reaction; level of integration; or poor and lack of communication can endanger not only the success of the integration process but the merger or acquisition itself, if not managed properly.

(Birkinshaw et al., 2000; Ranft & Lord, 2002; Quah & Young, 2005; Hitt et al., 2004; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Kummer 2009; Abhijit & Hajro 2009; Sarala, 2010; Vancea, 2011; Teerikangas et al., 2012; Caiazza & Volpe, 2015)

Based on these findings it can be understood why the subject of post-acquisition integration challenges has aroused the author's interest. The literature gap consisted of not finding any study which indicates if these challenges of post-acquisition integration are common to all industries or they differ among industries. Starting from this, three research questions were presented and will be followed as a guiding line throughout this project.

## CHAPTER 2

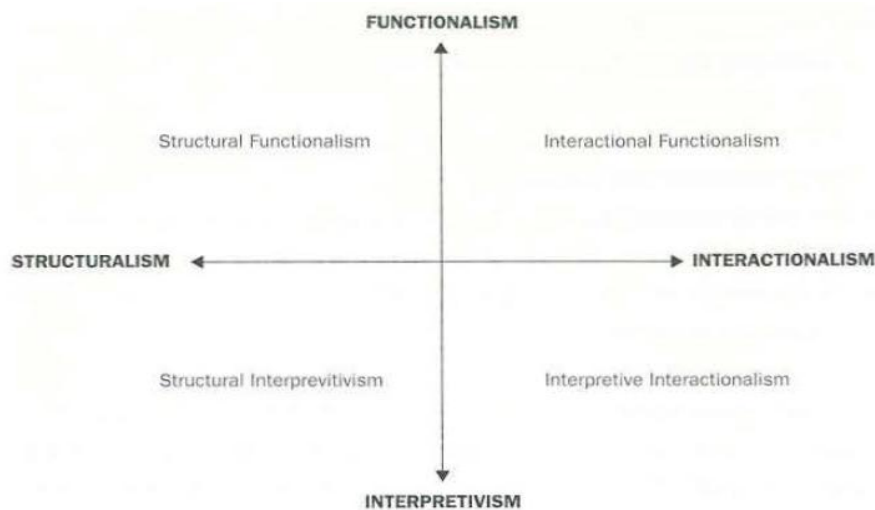
### 1. Introduction

This chapter will provide the reader the methodological information about this research. First, the FISI classification will be presented. Secondly, it will be explained how the search of conceptual and empirical articles was done. After that, the methodological perspective embedded in this project will be introduced. The chapter will end with a summary. It is important to note that the author of this thesis is aware of the other methodological choices as the RRIF classification of Burrell and Morgan (which covers the radical humanism, radical structuralism, interpretivism, and functionalism) or Abnor and Bjerke's classification of six paradigms and three research approaches. (Kuada, 2012, p. 75) However, FISI was chosen due the fact that it was found to be most suitable to explain the methodological view used in this thesis.

### 2. FISI classification

In the nineteenth and early mid-twentieth centuries, sociological scholars: Emile Durkheim, Herbert Spence, Talcott Parsons and Robert Merton accentuated “*the importance of studying social phenomena in terms of structures, functions, and interactions*”. They basically suggest that “*social facts have existence outside individual actions*”. (Kuada, 2012, p. 75) In the figure below can be seen the graphical representation of FISI classification.

**Figure 2.1 – FISI classification**



*Source: Kuada, 2012, p. 76*

Functionalism in the business field means that organizations make the kind of changes in the structures, which allow them to align with their operational environment. In more simple words, the changes in terms of strategies and structures of the organizations are the result of the external environmental stimuli. This means that the changes and events have an objective cause. It is also believed that social institutions are built on the basis of “*interconnected roles and inter-related norms*”. However in more recent studies, scholars started to point out the fact that these changes made by managers appear due to the influence of subjective elements, including perceptions and beliefs of the person that made the decision to change. (Kuada, 2012, pp. 76-77)

Interpretivism subscribes to the view that it is necessary “*to understand how people define situations in which they are involved and the meaning they derive from their experiences*”. This paradigm asks investigators to see the human beings as actively involved in the things which happen around them. (Kuada, 2012, p. 77)

Structuralism “*sees human societies as composed of complex systems of interrelated parts*”. It also emphasizes the collective rather than individual and the social position of people is determined by the way the society is structured. (Ibid)

Interactionism perspective shows that interactions between people have an important role in the social life functioning. According to this paradigm, individuals are capable of creating and sharing meanings through interactions and their reaction towards external incentives cannot be anticipated. (Kuada, 2012, pp. 77-78)

The above described paradigms can be combined in different ways. However the most known combination of them is: structural functionalism, structural interpretivism, interactional functionalism and interpretive interactionism.

Structural functionalism suggests that “*society has an existence over and above individuals*”. From this thought appeared four features of social systems:

- Adaptation – which represents the capability to interact and adapt to external contexts;
- Goal attainment – which refers to the social systems’ capacity to set goals and implement decisions;
- Integration – is related to using shared values and norms in order to obtain harmonization and convergence;

- Latency – involves socialization of new members into existing norms and values which leads to the creation of a stable pattern over time (Kuada, 2012, pp. 78-79)

Structural interpretivism subscribes to the view that social world has basic structures that influence the relationships. However, the emphasis is put on the meaning that people extract from events and experiences which had place within the structure, rather than the structure itself. The scholars who adopt this perspective think that reality “*can only be revealed by those engaged in the experience*”. (Kuada, 2012, p. 79)

Interactional functionalism is the combination of interactionism perspective and the functionalist one which sees social systems as formed of “*interconnected and inter-related norms*”. This means that “*interactions produce social norms and the predictability of behaviors that allow expectations to be built and roles to be defined*”. Consequently, norms and regulations are born due to the interaction of people. (Kuada, 2012, pp. 79-80)

Interpretive interactionism supports the idea that people interact inside and outside of organizations’ limits. These continuous interactions lead to the formation of experiences which will be analyzed and interpreted by the individuals with the help of their cognitive capabilities and memories. This, ultimately, contributes to the shaping of their behaviors. (Kuada, 2012, p. 80)

### **3. Presentation of the search method of theoretical and empirical studies**

The process of the literature choice was done as it follows:

- The search terms like: “post-acquisition challenges OR post-acquisition issues OR post-acquisition problems – articles” were utilized.
- These terms were introduced on Google search engine and on the Website of Aalborg University’s online library (<http://www.en.aub.aau.dk/>)
- The search done on Google led to the finding of M. Vancea’s article (Challenges and stakes of the post-acquisition integration process, 2011).
- The search from Aalborg University’s Website led to the discovery of Rashmi Haritwal and Ved Prakash’ article (Post-M&A knowledge integration challenges, solutions and learnings, 2007) and the chapter from the book of Satu Teerikangas, David Faulkner, Richard J. Joseph - (The handbook of mergers and acquisitions; Post-deal integration, 2012)

- By using the key words “M&A process, literature review, pdf” on Google, the author found the paper work of Garibaldi de Hilal Adriana (Literature review to develop a study on how the human factor can influence the success or failure of mergers & acquisitions, 2013) and of Rosa Caiazza, Tiziana Volpe (M&A process: a literature review and research agenda, 2015)
- After reading the article of Vancea M., the author of the present project identified that the work of two other scholars (Abhijit and Hajro, 2009 and Quah and Young, 2005) was quoted.
- Naturally, it followed a search on Google of those two papers and it led to the website of European Management Journal and Emerald Insight. Since the access on these websites is granted only through payment, or if you are a researcher or an educational institution, university’s online library was used as a mean to download those files.
- The rest of the search was conducted by using this pattern; reading one article, identifying other works, looking for them on Google and if they couldn’t be found with its help, then university’s online library was used. If the article couldn’t be found through this method either, it means that it was not used in the literature review.

#### **4. Presentation of the thesis methodological perspective**

The readers of this master thesis were informed in the previous chapter that, for writing it will be used theoretical, empirical and consultancy articles, as well as two case studies of two Danish companies.

Hence, the facts presented in all these paper works will be taken from a face value. After the identification of current level of knowledge in regard to post-integration process challenges and solutions, the author will try to understand what factors contribute to appearance of challenges. In doing so, the case studies will be used. The detection of these faulty factors will be performed by interpreting the interactions between people involved in the post-integration process described in the case studies. Consequently, the methodological perspective of the project is embedded in the one of interpretive interactionism.

#### **5. Summary**

As can be seen, in this chapter was presented the FISI classification, as well as the way that selection of theoretical and empirical articles was performed. After that it was identified the methodological perspective of the project, namely interpretive interactionism. This mean that interpretation of the interactions between people, as they appear presented in the case studies, underlies the current research.

## CHAPTER 3

### 1. Introduction

As it was stated in the first chapter, the mismanagement of challenges met by firms during the integration process and the bad execution of the integration plan are the factors to blame for the failure of mergers and acquisitions. (Birkinshaw et al, 2000; Ranft & Lord, 2002; Quah and Young, 2005; Hitt et al, 2004; Schoenberg et al., 2007; Rashmi Haritwal and Ved Prakash, 2007; Kummer 2009; Abhijit & Hajro 2009; Vancea, 2011; Teerikangas et al, 2012; Caiazza & Volpe, 2015; The survey of KPMG LLP firm, 2015)

The author wants to deepen this topic and will try to see what these issues are, what solutions can be implemented and how are they applied by firms in practice. Also, it is aimed to identify if culture is seen from a social or from a structural perspective and how these views influence the outcome of the integration process in empirical studies. Likewise, it will be followed if problems' order of priority changes over the period of study (from 2000 until 2015).

For a more structured outcome the three research questions proposed in chapter one will be used as a guideline. The chapter will conclude in a summary of the main discoveries.

### 2. First research question

First, the most cited challenges in the theoretical literature will be found, as well as the proposed means by which the problems can be solved. Also, the scholars' perspective about how cultural change should be brought into the new organization during the integration process will be identified. By doing this, the **first research question** will be answered: "What are the challenges of post-acquisition integration, according to the conceptual literature; how is the culture seen in this literature; and what solutions for overcoming the issues are proposed by the researchers?"

For a period of 5 years (2001- 2005) top five frequently mentioned issues were: loss of key people; poor/lack of communication; lack of leadership; high degree of integration; and national and organizational differences (Schuler & Jackson, 2001; Risberg, 2003; Hitt et al, 2004; Abhirup Chakrabarti & Will Mitchell, 2005).

Among the solutions provided by the scholars of that time can encounter: planning carefully the integration process; announcing as soon as possible the changes in management structure, layoffs, restructuring (refers to speed of implementation); selecting early in the process the

employees that will be retained and offer them financial incentives; open and full communication throughout the process; and offer a certain degree of autonomy. (Ibid)

In the articles of Schuler & Jackson, (2001) and Risberg (2003) culture is seen from a structural perspective. According to this view, structure determines our lives and characters and structured sets of social relationships are the “reality” that lies below the appearance of “the free individual” (Harrington, 2005). By relying on this standpoint during the post-acquisition integration process, it means that the culture of the new organization will be created by the top management through programmed changes. As for the other two articles of Hitt et al. (2004) and Abhirup Chakrabarti & Will Mitchell (2005) it is not specified the way that culture is created after the acquisition.

From 2005 until 2009 no conceptual article was found.

The two articles dating from 2009 present as issues: level of integration; loss of key people; national and organizational cultural differences; not having the management capabilities, employees and financial resources available; and unwillingness to engage in exploration learning which leads to failure of knowledge and best practices transfer. (Kummer, 2009; Abhijit & Hajro, 2009)

For overcoming these problems the proposed solutions consist of: speed of implementation which refer to preparing the integration plan as early as possible; identify, from an early stage, the key people that should be retained; take quick actions in order to keep the employees motivated; maintain a low level of legitimacy of existing norms; and have a certain slack in organizational capacity – this refers to having people able to handle the complete M&A process. (Ibid)

Even though in their article Abhijit & Hajro (2009) explain why the imposed measures by the managers/expatriates fail to bring cultural change, they do not specify which methods are the most desirable to be applied in this situation. Therefore, their position towards cultural perspective is unclear. Likewise, neither in the article of Kummer (2009) it not mentioned how culture should be created during the integration process.

In a more recent group of articles (2011-2015) are stated as top-five most common challenges: the organizational and national cultural differences; the weak/no communication; the high degree of integration; the loss of key people; the speed and timing of integration. (Vancea,



2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

Among the solutions suggested by these authors encounter: establish an integration plan early in the process; inform the employees about the changes which will be implemented, as soon as possible; use communication, socialization, mutual interaction and transparency to solve the human resource issues; offer a degree of autonomy; and make an employee retention strategy and performance measurement plan early in the deal in order to avoid the loss of key people. (Ibid)

It is noticeable that in this group of articles culture is seen from a social perspective. According to this view, people are heavily influenced by social relations and environmental contexts. (<http://www.education.com/>) This means that cultural change is achieved through active involvement of human factor, communication and “*encouragement of interaction between two groups in a positive, cooperative and supportive environment*”. (Garibaldi de Hilal, 2013; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Caiazza & Volpe, 2015)

It is interesting to note how the cultural point of view changed from a structural perspective (in the period 2001-2005) - where the change is in the hands of top managers/expatriates, to a social perspective (observed in the recent years: 2011- 2015) where culture creation is owned by human factor/employees.

An overview of the problems mentioned above for the period of time 2000-2015, indicates that it is a considerable high degree of consistency between them. Three out of top five most cited issues remain the same and they refer to: level of integration, loss of employees and national and organizational cultural differences. However, there are issues that changed their order of priority over time. For example, poor/lack of communication is mentioned as a challenge in the articles from 2001-2005 and in the more recent ones (2011-2015), but not in those from the middle period. Lack of leadership is stated only in the older paper works (2001-2005), while in those from 2009 are indicated as problems: the lack of management capabilities, employees and financial resources available; and unwillingness to engage in exploration learning which leads to failure of knowledge and best practices transfer. Between 2011 and 2015 a greater importance was given to the speed or time of changes implementation.

Three of the solutions remain the same for the whole period of study of 15 years and they refer to: having an integration plan; offer a degree of autonomy; and carrying out, from an early stage of the process, the selection of employees that need to be retained. However, it is interesting to observe that, open and full communication; and fast announcement of changes that will be implemented during the integration phase are presented as methods to overcome challenges in both groups of articles from 2001-2005 and 2011-2015. In the articles from 2009 one different solution is indicated and refers to: having in own organization skilled people capable to handle the integration process.

In conclusion, there is a set of challenges and solutions common to all articles studied during 2000-2015, as well as different issues and solutions that appear to be more important as time goes by. (Ibid) For a better understanding of the above findings, a summary table will be provided below:

**Summary Table 3.1 – Highlight of integration problems and solutions in the theoretical literature**

<b><u>2001 - 2005</u></b>		
<b><u>Priority</u></b>	<b><u>Issues</u></b>	<b><u>Solutions</u></b>
1	National and organizational cultural differences	Planning carefully the integration process
2	Poor/lack of communication	Open and full communication throughout the process
3	Loss of key people	Selecting early in the process the employees that will be retained and offer them financial incentives
4	Lack of leadership	Speed of integration: announcing as soon as possible the changes in management structure, layoffs, restructuring
5	High degree of integration	Offer a certain degree of autonomy
<b><u>2009</u></b>		
1	National and organizational cultural differences	Prepare the integration plan, as early as possible
2	Loss of key people	Identify, from an early stage, the key people that should be retained
3	High degree of integration	Maintain a low level of legitimacy of existing norms (offer a degree of autonomy)
4	Not having the management capabilities, employees and financial resources available	Have a certain slack in organizational capacity – this refers to having people able to handle the complete M&A process
5	Unwillingness to engage in	Take quick actions in order to keep the

	exploration learning which leads to failure of knowledge and best practices transfer	employees motivated
<b><u>2011-2015</u></b>		
1	National and national cultural differences	Establish an integration plan early in the process
2	Poor/lack of communication	Use communication, socialization, mutual interaction and transparency to solve the human resource issues
3	Loss of key people	Make an employee retention strategy and performance measurement plan early in the deal in order to avoid the loss of key people
4	High degree of integration	Offer a degree of autonomy
5	Speed and timing of integration	Inform the employees about the changes and implement them as soon as possible

*Source: Created by author based on the information from theoretical articles*

### 3. Second research question

The purpose of the second research question is to discover what are the problems and solutions presented in empirical literature, as well as the cultural perspective. Also, it is the author's intent to identify if the proposed solutions from the theoretical literature are followed in practice by firms.

In the first instance an answer will be provided for *the first part of the question*, namely: "What are the stated issues and solutions in the empirical literature and what perspective of the culture is present in these studies?"

The empirical evidence for the period of time 2000 - 2005 shows that companies face most often the problems related to: poor integration planning and implementation; loss of key people; differences of organizational culture, practices and systems; too fast or too slow implementation; and high level of integration. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005)

The solutions refer to: creating a mixed integration team (from both acquiring and acquired firm); providing a rapid, rich and continuous communication throughout the integration process; retaining key employees by offering them financial incentives and a degree of autonomy; and making usage of social controls (introduction programs, training, cross-visits, rotation of personnel, celebrations and similar socialization rituals in an informal environment, transition teams). The solutions regarding the speed of changes implementation are contradictory. Some researchers (Ranft & Lord, 2002; Quah & Young, 2005) found out

that a slower pace of implementation is the best solution because the acquiring firm will identify better what changes are required once its knowledge of the acquired organization increases. Others (Birkinshaw et al., 2000; Marc J. Epstein, 2004) believe that integration should start right after the deal is signed in order to retain the skilled employees, to allay fears and deter resistance.

The cultural perspective in the articles of Birkinshaw et al. (2000), Larsson & Lubatkin (2001) and Ranft & Lord (2002) is social, which means that the acquiring firm is relying on human factor to achieve a successful integration. On the other side, Epstein (2004) and Quah & Young (2005) concluded that structural view of the culture ensures the overall success of the integration.

The next group of articles (2006-2010) mentions as problems: national and organizational cultural differences, practices and systems; communication issues; lack of clear leadership; cultural preservation in both: acquiring and acquired firm (level of integration); and IT system differences. (Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Sarala, 2010)

The solutions focus on: creating a mixed integration team and relocation of integration manager; effective and timely communication with articulated vision and directions; usage of social controls (cross-visits, project teams/ personnel rotation, training); offer a certain degree of autonomy to the acquired firm; active involvement of the middle management and employees in the integration process. (Mitleton-Kelly, 2006; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008)

The social standpoint of the culture can be noticed in the articles of Mitleton-Kelly (2006), Rashmi Haritwal & Ved Prakash (2007) and Meyer (2008). The authors of the other two articles (Schoenberg et al., 2007; Sarala, 2010) do not mention how culture is seen in their empirical cases.

It can be observed until now that most of the empirical studies showed a social perspective towards culture. This means that acquirers focused on developing social relations with the acquired firms' employees and creating supportive environmental contexts for them, in order to achieve a new culture and to deter resistance to change. Therefore, by offering a great importance to human factor, firms managed to overcome the challenges and ensured a successful acquisition.

Regarding the problems identified in these articles for the period 2000-2010, it can be noticed that they are consistent in terms of national and organizational differences and level of integration. Also, in the second group of articles (2006-2010) speed of integration, poor/lack of integration planning and loss of key people are not mentioned anymore as issues that companies face during the integration process (as they were specified in the articles from 2000-2005). Instead, lack of clear leadership, communication and IT system differences were stated as challenges in the more recent paper works. This means that challenges specified in the empirical studies suffered a change in order of priority over time.

As for the solutions, they present a higher degree of consistency compared to challenges. Four out of five solutions are the same for the period of time 2000-2010. They address the usage of communication; social controls (cross-visits, project teams/ personnel rotation, training); creation of mixed integration teams; and offering a degree of autonomy to the acquired firm. However, speed of integration does not represent a priority in the articles from 2006-2010 as a different solution is presented and refers to: active involvement of middle management and employees in the integration process. Also the suggestion of retaining employees through financial incentives presented in 2000-2005 articles does not appear in the paper works from 2006-2010. In the below table it is presented a much more clear view of the above discoveries:

**Summary Table 3.2 – Highlight of the integration problems and solutions in empirical literature**

<b>2000 - 2005</b>		
<u>Priority</u>	<u>Issues</u>	<u>Solutions</u>
1	Poor integration planning and implementation	Creating a mixed integration team (from both acquiring and acquired firm)
2	Differences of organizational culture, practices and systems	Providing a rapid, rich and continuous communication throughout the integration process
3	Level of integration	Making usage of social controls (introduction programs, training, cross-visits, rotation of personnel, celebrations and similar socialization rituals in an informal environment, transition teams)
4	Loss of key people	Retaining key employees by offering them financial incentives and a degree of autonomy
5	Too fast or too slow implementation	Contradictory solution: fast implementation/slow implementation

<b><u>2006-2010</u></b>		
1	National and organizational cultural differences, practices and systems	Creating a mixed integration team and relocation of integration manager
2	Level of integration	Offer a certain degree of autonomy
3	Lack of clear leadership	Usage of social controls (cross-visits, project teams/ personnel rotation, training)
4	Communication issues	Effective and timely communication with articulated vision and directions
5	IT system differences	Active involvement of the middle management and employees in the integration process

*Source: Created by author based on the information from empirical literature*

In order to answer the second part of the question – “Based on the empirical findings, do companies follow in practice the proposed methods of the theoretical literature?” – the following steps will be undertaken. Firstly, the solutions provided in the conceptual literature will be reminded, as well as those presented by the empirical studies. Secondly, these solutions will be compared and see to what degree they coincide.

In the conceptual literature the proposed solutions were:

- Planning carefully and as early as possible the integration process;
- Announcing as soon as possible and taking rapid actions early in the integration phase with regard to communications and changes in management structure, layoffs, restructuring;
- Make an employee selection and retention plan early in the deal, or retain them by offering financial incentives;
- Offer a degree of autonomy;
- Take quick actions in order to maintain the employees motivated;
- Use open, rich and frequent communication, socialization, mutual interaction and transparency to solve the human resource issues;
- Have a certain slack in organizational capacity – this refers to having people able to handle the complete M&A process. (Schuler & Jackson, 2001; Risberg, 2003; Hitt et al., 2004; Abhirup Chakrabarti & Will Mitchell, 2005; Kummer, 2009; Abhijit & Hajro, 2009; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

The empirical studies' solutions were referring to:

- Creating a mixed integration team (from both acquiring and acquired firm) and relocation of integration manager;
- Providing a rapid, rich and continuous communication throughout the integration process;
- Retaining key employees by offering them financial incentives;
- Offer a degree of autonomy;
- Making usage of social controls (introduction programs, training, cross-visits, rotation of personnel, celebrations and similar socialization rituals in an informal environment, transition teams);
- Actively involve the middle management and employees in the integration process; (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Sarala, 2010)
- Contradictory solutions for speed of implementation: slow pace recommended by Ranft & Lord (2002) and Quah & Young (2005); and fast integration which should start right after the deal is signed suggested by Birkinshaw et al., (2000) and Marc J. Epstein (2004)

From the above stated ways to overcome challenges of post-acquisition integration of both theoretical and empirical articles, it can be noticed that companies used in practice some of the proposed solutions in the conceptual literature. They refer to: provide rich and continuous communication throughout the process; retain the employees by offering them financial incentives; and offering them a degree of autonomy. The speed of implementation with rapid actions taken from an early stage of integration recommended in theoretical articles (which refer to: make an integration plan as soon as possible; announce and implement as soon as possible the changes related to communications, management structure, layoffs, restructuring) is not used unanimously in practice by companies. (Ibid) Some empirical studies proved to be in the same line with the conceptual proposition in terms of speed, while others showed that a slow pace of implementation was the best option for ensuring the success of the acquisitions. (Birkinshaw et al., 2000; Marc J. Epstein, 2004; Ranft & Lord, 2002; Quah & Young, 2005)

However, it can be seen that in practice companies made also use of some other means to integrate successfully the acquired firms. They relied on creating a mixed integration team and relocation of integration manager; active involvement of middle management and employees in the integration process; and social controls (introduction programs, training, cross-visits,

rotation of personnel, celebrations and similar socialization rituals in an informal environment, transition teams). (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Quah & Young, 2005; Mitleton-Kelly, 2006; Rashmi Haritwal & Ved Prakash, 2007)

In conclusion, companies followed in practice four out of seven solutions suggested by the conceptual literature, which means that there is a pretty high degree of consistency between these two types of literatures.

#### **4. Third research question**

This research question constitutes the aim of the project itself and it is formed of three parts, as it can be seen: “What are the common and different issues faced by companies from diverse industries? Do the applied measures, for ensuring the success of integration process, change between industries? Can these actions be generalized and used universally, no matter the industry, or they need to be particularized?”

For a better understanding each part will be answered individually. By identifying the similar and different problems of integration process encountered by firms from different industries, the first part of the question will be answered: “What are the common and different issues faced by companies from diverse industries?”

From the literature review search can be seen that 11 articles out of 22 mention case studies from 23 industries. Some belong to service category such as: banking, non-life insurance, telecommunication, airline, cargo shipping, transport, customer relationship management and debt collection, housing planning, and leisure. (Larsson & Lubatkin, 2001; Epstein, 2004; Schoenberg et al., 2007; Meyer, 2008)

However, most of them pertain to manufacturer category as: car industry, furniture, housing building, toy manufacturing, tobacco, chemical industry, textile industry, motorcycle manufacturing, cement industry, shoes, railroads cars, packaging materials, food industry, health care, IT industry or engineering industry. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Schuler & Jackson, 2001; Ranft & Lord, 2002; Vaara, 2003; Quah & Young, 2005; Mitleton-Kelly, 2006; Rashmi Haritwal & Ved Prakash, 2007)

The investigation showed as common issues among the industries: human resources problems (retention, downsizing/turnover, training, and motivation), differences of national and organizational culture which can lead to cultural clash and resistance and level of integration or degree of autonomy. (Ibid)



There are other challenges that were identified as common only among some of the industries, such as: speed/timing of implementation and communication issues cited for case studies from chemical, engineering, IT, health care, furniture, bank industry and car industry (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; Quah & Young, 2005; Mitleton-Kelly, 2006); and IT system dissimilarities in chemical, engineering, IT industry and bank industry. (Birkinshaw et al., 2000; Epstein, 2004; Rashmi Haritwal & Ved Prakash, 2007)

Also, some issues like: poor or lack of designing/planning of post-acquisition integration process counted more in chemical, engineering, bank and car industries (Birkinshaw et al., 2000; Epstein, 2004; Quah & Young, 2005), while lack of clear leadership, hostile integration measures, complicated structures and lack of trust on both sides were seen as problems mostly in chemical and engineering industries. (Birkinshaw et al., 2000; Mitleton-Kelly, 2006)

To sum up, three problems were found as common to 23 industries, from both: service and manufacturing sectors, and they are related to human factor, cultural differences and degree of autonomy. In addition, for knowledge and innovation development industries other issues were detected, such as: speed of integration, communication, IT systems dissimilarities, poor or lack of designing/planning of integration, lack of clear leadership, hostile integration measures, complicated structures and lack of trust on both sides.

The above findings reveal that there is a higher degree of similarity between challenges from different industries rather than differences. In the table below it can be better observed which challenges correspond to which types of industries.

**Summary Table 3.3 – Highlight of the integration problems depending on the industry type**

<u>Problems</u>	<u>Industry type</u>
Human resources problems (retention, downsizing/turnover, training, and motivation)	All 23 industries from both: manufacturing and service sectors (they are mentioned above)
Differences of national and organizational culture	All 23 industries
Level of integration or degree of autonomy	All 23 industries
Speed/timing of implementation	Chemical, engineering, IT, health care, furniture, bank industry and car industry
Communication issues	Chemical, engineering, IT, health care,

	furniture, bank industry and car industry
IT system dissimilarities	Chemical, engineering, IT industry and bank industry
Poor or lack of designing/planning of post-acquisition integration process	Chemical, engineering, bank and car industries
Lack of clear leadership	Chemical and engineering industries
Hostile integration measures	Chemical and engineering industries
Complicated structures	Chemical and engineering industries
Lack of trust on both sides	Chemical and engineering industries

*Source: Created by author based on the information from the articles which mention industries*

The second part of the research question aims to find out if the methods used by firms to overcome the challenges differ from industry to industry: “Do the applied measures, for ensuring the success of integration process, change between industries?”

Based on the same 11 articles mentioned above, were discovered three common solutions for all 23 industries (indicated previously) and they refer to: usage of social controls, communication and some degree of autonomy. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Schuler & Jackson, 2001; Ranft & Lord, 2002; Vaara, 2003; Quah & Young, 2005; Mitleton-Kelly, 2006; Rashmi Haritwal & Ved Prakash, 2007; Schoenberg et al., 2007, Meyer, 2008)

However, establishment of an integration plan (Epstein, 2004; Meyer, 2008); rapid implementation of integration changes (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Epstein, 2004); retention of employees through financial incentives (Schuler & Jackson, 2001; Ranft & Lord, 2002) or creation of mixed integration team (Quah & Young, 2005; Mitleton-Kelly, 2006) were found as additional solutions in the case studies from airline, telecommunication, bank, non-life insurance industries, chemical, engineering, IT, car and health care industries.

Slow implementation of the integration is supported by the case studies from car industry (Quah & Young, 2005) and IT industry (Ranft & Lord, 2002). This last finding is particularly interesting considering that for the same industries (IT and car) it was also revealed that a fast integration is one of the solutions in achieving successful integration. Therefore, the conflicting results in terms of speed of integration lead to the conclusion that this method is rather case specific than industry specific.

Nevertheless, a closer look at the solutions stated above indicates that they do not differ greatly among industries, but are pretty steady. The fact that three solutions referring to:

usage of social controls, communication and some degree of autonomy were applicable for 23 types of industries and other four additional means (speed of integration, having an integration plan, creating mixed integration teams and retaining employees through financial incentives) were used for knowledge and innovation related firms, shows that they are not industry specific. This finding not only that answers the second part of the research question, but also to the last part of it.

**Summary Table 3.4 – Highlight of the integration solutions according to the industry type**

<u>Solutions</u>	<u>Industry type</u>
Usage of social controls	All 23 industries
Communication	All 23 industries
Some degree of autonomy	All 23 industries
Establishment of an integration plan	Bank industry, airline, telecommunication and non-life insurance
Rapid implementation of integration changes	Chemical industry and engineering industry, IT industry, car industry, health care industry and bank industry
Retention of employees through financial incentives	Engineering industry, IT industry, car industry and health care industry
Creation of mixed integration team	Car industry and engineering industry
Slow implementation of the integration	Car industry and IT industry

*Source: Created by author based on the information from the articles which mention industries*

The purpose of the research question's last part is to identify if the methods used by firms to solve the issues encountered during the integration process present general features or they are more industry specific: ("Can these actions be generalized and used universally, no matter the industry, or they need to be particularized?"). According to the above findings, the set of methods (usage of social controls, communication and some degree of autonomy) was used by firms from 23 types of industries. Based on this, it can be affirmed that at least these three measures can be universally valid. However, it is necessary to consider that knowledge and innovation related companies, like: banks, car, IT, chemical, telecommunication or engineering firms need to make use of additional means (speed of integration, having an integration plan, creating mixed integration teams and retaining employees through financial incentives) in order to obtain the desired result of post-acquisition integration process.

## 5. Summary

It was aimed to answer in this chapter the three research questions established as a result of the literature gap. First, the author wanted to see what are the challenges of post-acquisition integration as they appear in the conceptual literature, as well as the solutions identified by these scholars and the cultural perspective.

The findings show that the structural way of seeing culture in the articles from 2001-2005 has changed over time to a social perspective, as it can be noticed in the papers works from 2011-2015. Therefore, the authors of the more recent times reached the conclusion that relying on people (employees in this case) during the integration process can be of more help in creating a new culture, compared to using structures and imposing culture to the acquired firm's employees, as it was revealed by the researchers of 2001-2005 period.

Regarding the problems identified for the period 2001-2015 it can be noticed that they do not change too much throughout time and three out five most cited issues remain the same for the whole period. They refer to: level of integration, loss of employees and national and organizational cultural differences. Nevertheless, some problems' order of priority modified over time, such as: lack of leadership (present in 2001-2005) which was replaced in the later articles (2009) by the lack of management capabilities, employees and financial resources available; and unwillingness to engage in exploration learning. The latest issues do not appear in the paper works from 2011-2015, as the new focus is on speed or time of changes implementation. Interestingly, communication issues are mentioned in both groups of articles from 2001-2005 and 2011-2015.

The solutions follow the similar pattern as challenges in the way that some of them remain the same for the whole period 2001-2015, while others disappear from the list and new ones are presented. Planning the integration process, as soon as possible; carrying out, from an early stage of the process, the selection of employees that need to be retained; and offering them a degree of autonomy, are the three steady solutions stated between 2001-2015. Particularly interesting is the fact that the solutions: open and full communication; and fast announcement and implementation of changes which must be carried out during the integration phase, are introduced by the articles from 2001-2005 and by those from 2011-2015. In the articles from 2009 are mentioned as different solutions: having skilled people capable to handle the integration process in own organization; and taking quick actions to maintain or restore the employees' motivation. (Schuler & Jackson, 2001; Risberg, 2003; Hitt et al, 2004; Abhirup

Chakrabarti & Will Mitchell, 2005; Kummer, 2009; Abhijit & Hajro, 2009; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

Secondly, the identification of problems, solutions and cultural perspective of empirical literature constituted another part from the total aim of this research question. In addition, the author wished to identify if the solutions presented in theoretical literature are followed in practice by companies.

The findings in regard to cultural perspective show that the social point of view was prevailing, which means that in practice companies relied on developing social relations with acquired firms' employees in order to create a new culture.

During 2000-2010 two types of issues were constantly mentioned in empirical studies: national and organizational differences; and level of integration. Some other issues' importance (like: speed of integration, poor/lack of integration planning and loss of key people) was, however, diminished over time as they do not appear mentioned in the more recent group of articles (2006-2010). Their place was taken by other problems as: the lack of clear leadership; and lack/poor communication and IT system differences.

Also, a number of four solutions are stated constantly throughout the period 2000-2010. They concern the usage of communication; social controls (cross-visits, project teams/ personnel rotation, training); creation of mixed integration teams; and offering a degree of autonomy to the acquired firm. It can be noticed that in the more recent group of articles (2006-2010) speed of integration was not mentioned as a solution, as it was not mentioned either as a problem in the same period of time. Instead, active involvement of the middle management and employees in the integration process is proposed in the empirical studies from 2006-2010 to be followed by companies.

The aim of finding out if the solutions suggested in the theoretical literature were followed by companies in practice led to the discovery that over half of them were used. They were referring to: provide rich and continuous communication throughout the process; retain the employees by offering them financial incentives; integrate fast; and offering them a degree of autonomy. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Sarala, 2010)

The third research question's purpose was to identify if the problems faced by firms during the integration process are common to all industries, or they differ from industry to industry. Also, it was aimed to detect if the methods used to overcome these problems are industry specific or they can be generalized.

The results of the analysis showed that some issues like: human resources problems (retention, downsizing/turnover, training, and motivation), differences of national and organizational culture and level of integration (or degree of autonomy) were common to all case studies from 23 types of industries. However, in addition to these problems, the companies which involved knowledge and innovation in their core business (banks, car, IT, chemical, telecommunication or engineering firms) faced difficulties in terms of communication, speed of integration, IT system dissimilarities, poor or lack of designing/planning of integration, lack of clear leadership, hostile integration measures, complicated structures and lack of trust on both sides. These findings indicate that industries have more similar problems rather than different ones.

The same thing was noticed in regard to solutions which were identified as not being industry specific. Three solutions were used unanimously by firms from 23 industries and they were concerning the usage of social controls, communication and some degree of autonomy for the acquired organization. As additional problems were faced by the knowledge and innovation related firms, so were the solutions used to achieve successful integration. They refer to: slow or fast integration (depends on the case company), having an integration plan, creating mixed integration teams and retaining employees through financial incentives.

According to these discoveries, it can be stated that the means by which firms can overcome the integration issues can be generalized. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Schuler & Jackson, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008).

In conclusion, the results of this chapter indicate that in terms of cultural perspective the theoretical literature is divided between structural and social point of view, while the empirical one is more social oriented.

Also, it was identified a high degree of consistency between the proposed solutions of conceptual literature and those used in practice by companies.

Moreover, industries' problems and solutions were detected to be more similar than different. This information led to the inference that the methods used by companies to override the challenges, faced during the integration process, can be generalized.

Below are provided the findings related to problems, solutions and cultural perspective for each theoretical and empirical article that was submitted to analysis until now. They are presented in a chronological order, but are not grouped in accordance with their type which means that will be mixed.

## 6. Articles' review

Year	Article's name/Authors	Article's type (conceptual/ empirical)	Challenges	How do firms overcome the challenges and achieve acculturation?
2000	<i>"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"</i> – Birkinshaw J., Bresman H., Hakanson, L.	Empirical (Multinational firms units; chemical industry and engineering industry) - Social cultural perspective	<ul style="list-style-type: none"> <li>- Overlapping functions and locations (product duplication)</li> <li>- Stalled integration, due to departure of key people</li> <li>- Absence of clear leadership</li> <li>- Poor/lack of communication between the acquired and the acquiring firm</li> <li>- Process took too long</li> <li>- Hostile integration measures</li> <li>- Poor integration planning</li> <li>- Unrealistic three-year integration plan</li> <li>- Differences of IT system</li> <li>- Geographical and cultural distance</li> </ul>	<ul style="list-style-type: none"> <li>- Rapid communication of information about acquisition</li> <li>- Answering questions and allay fears</li> <li>- Quick decisions about what would happen to units of the acquired firm</li> <li>- Quarterly development meetings</li> <li>- Rotation of personnel</li> <li>- Standardized documentation</li> <li>- International seminars and international project teams</li> <li>- Video conference</li> <li>- Allowing the acquired firm's employees to know the integration managers in an informal environment (e.g. Whisky and sauna party)</li> </ul>
2001	<i>"Achieving acculturation in mergers and acquisition: An internal case survey"</i> – Larsson R. and Lubatkin M.	Empirical (50 cases; 15 Swedish domestic, 12 Swedish foreign, 23 US domestic – from around 20 industries) - Social cultural perspective	<p>The study refers to the analysis of 6 determinants of acculturation: autonomy removal, merger relatedness, relative size, social controls, national culture, and cross-nationality.</p> <p><i>Mentioned issues:</i></p> <ul style="list-style-type: none"> <li>- National and organizational cultural differences</li> <li>- Degree of autonomy</li> <li>- Human resource issues (resistance, turnover)</li> </ul>	<p>The analysis showed that acculturation is best achieved when the buying firms rely on social controls which refer to:</p> <ul style="list-style-type: none"> <li>- Involving employees in socialization activities as introduction programs, training, cross-visits, joining retreats, celebrations and other such socialization rituals they are likely to create a joint organizational culture on their own volition, as long as they are allowed autonomy.</li> <li>- If autonomy is restrict additional social</li> </ul>



			controls are required: transition teams, senior management involvement, temporary personnel exchange/rotation
2001	<p><i>“HR issues and activities in mergers and acquisitions”</i> - Schuler R. and Jackson S.</p>	<p>Conceptual (case examples are provided: Cisco (IT industry), Cooper Industries (engineering industry), DaimlerChrysler (car industry), Johnson&amp;Johnson (health care industry)</p> <p>-Structural cultural perspective</p>	<p><b><i>HR issues in the Combination stage - Integrating the Companies</i></b></p> <ul style="list-style-type: none"> <li>- Selecting the integration manager</li> <li>-Designing/implementing teams</li> <li>-Creating the new structure/strategies/leadership</li> <li>-Retaining key employees</li> <li>-Motivating the employees</li> <li>-Managing the change process</li> <li>-Communicating with and involving stakeholders</li> <li>-Deciding on HR policies and practices</li> </ul> <p>- Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible after the deal is signed</p> <p>- Carrying out an employee selection and retain them by offering financial incentives</p> <p>- Managing communication also helps in retaining the employees and motivating them</p>
2002	<p><i>“Acquiring new technologies and capabilities: A Grounded Model of Acquisition Implementation”</i> - Annette L. Ranft Michael D. Lord</p>	<p>Empirical (IT industry)</p> <p>- Social perspective</p>	<ul style="list-style-type: none"> <li>- Not taking quick actions in order to remove employees’ uncertainty related to their job status</li> <li>- Too fast integration which can lead to resentment and dissatisfaction of the acquired firm’s employees</li> <li>- Differences of organizational cultures, practices and systems</li> <li>- The loss of the key employees</li> <li>- Poor/lack of communication</li> <li>- Mismanaging the need for preserving the knowledge of the acquired firm and the need to integrate those knowledge (level of integration)</li> </ul> <p>- Slower implementation in order to offer the acquiring firm time to learn about the acquired firms' technologies and capabilities and preserve knowledge residing in human capital.</p> <p>- Retain the employees from the knowledge residing area not only the top executives</p> <p>- Offer them financial incentives or allow the key employees a considerable degree of autonomy by ensuring they had representation on the new post-acquisition management team</p> <p>- Frequent, open and “rich” communications facilitate the acquisition</p>

				implementation, especially the face-to-face interpersonal contacts enhance relations and trust between the two organizations - Offering the proper degree of autonomy complemented by a rich communication
2003	<p><i>“Post-acquisition integration as sense making: Glimpses of ambiguity, confusion, hypocrisy, and politicization” - Eero Vaara</i></p>	<p>Empirical (Furniture industry) - No cultural perspective mentioned</p>	<p>- <i>Ambiguity</i> and <i>confusion</i> caused by language problems and other cultural differences in decision-making and communication practices</p> <p>- Organizational <i>hypocrisy</i> resulted from postponing the necessary changes in particular units (required by the integration process), due to good overall performance of the units.</p> <p>- Ambiguity and confusion may also develop into <i>politicization</i> in circumstances where the changes involved are seen as politically significant. Politicization was most clearly manifested when the internal discussions touched upon issues that could have a longer-term impact on the future of the specific units.</p>	Not mentioned
2003	<p><i>“The merger and acquisition Process” - Anette Risberg</i></p>	<p>Conceptual (No specified industry) -Structural cultural perspective</p>	<p>- Poor or lack of strategic fit between the acquired and acquiring firm</p> <p>- Poor or lack of organizational fit between the two firms</p> <p>- A high degree of integration which can lead to cultural clashes manifested as negative attitudes and higher degrees of stress and anxiety</p>	<p>- Plan the integration process very carefully in order to achieve synergies</p> <p>- In order to deal with national cultural issues, managers need to establish leadership styles, rules of conduct, and administrative procedures that are consistent with the national values of the employees of the acquired organization</p>

		<ul style="list-style-type: none"> <li>- Value destruction for the employees in the form of a changing reward system, an expected promotion that was cancelled due to the acquisition</li> <li>- Leadership vacuum that is the lack of appropriate leadership to articulate a new purpose for the combined firms</li> <li>- Differences in national cultures</li> <li>- Not informing the employees about the objectives of the acquisition can lead to uncertainty and resistance to change and less engagement in their work</li> <li>- Loss of key personnel</li> </ul>	<ul style="list-style-type: none"> <li>- Acquiring management should be open and frank with the acquired company and tell them their intentions rather than pretending nothing will change</li> <li>- Open and full communication throughout the post-acquisition phase can help to retain the key employees and remove their uncertainty and resistance</li> </ul>
2004	<p><i>"The drivers of success in post-merger integration"</i> - Marc J. Epstein</p> <p>Empirical (Bank industry) - Structural cultural perspective</p>	<ul style="list-style-type: none"> <li>- Poorly designed and implemented post-merger/acquisition integration process</li> <li>- Wait too long to begin the post-merger/acquisition integration process</li> <li>- Technical integration challenges</li> <li>- Integrating the human side of an acquisition</li> </ul>	<ul style="list-style-type: none"> <li>- Establish a coherent integration strategy which creates the impression that the acquired company was "always there" and focus on the acquired company adopting practices of the acquiring company.</li> <li>- Create a small, discrete but strong integration team with ample resources and contributions from senior management. Leadership from the acquired company should remain.</li> <li>- Significant, consistent and constant communication is another key success factor. Information on employees' retention must be quickly carried out in order to prevent losing the skilled employees. Then clear roles and responsibilities must be assigned and</li> </ul>

			<p>offer training where necessary. Also, the employees who were fired should be treated with dignity, informed of decisions rapidly, and assisted in finding new employment. Communication is vital in dealing with customers too, who have to be informed about the direction of the new company and how it affects their relationship.</p> <ul style="list-style-type: none"> <li>- Speed of integration is the key for promoting stability and reducing uncertainty in organization.</li> <li>- Create a set of aligned measurements that allow monitoring the synergy realization, cost reductions, performance evolution from a financial point of view and also non-financial measures of performance such as: customer satisfaction and retention, cultural integration, employee satisfaction and retention, operational reliability, and risk management.</li> </ul>
2004	<p><i>“Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future”</i> - Katsuhiko Shimizu, Michael Hitt, Deepa Vaidyanath, Vincenzo Pisano</p>	<p>Conceptual (No specified industry) - No cultural perspective mentioned</p>	<ul style="list-style-type: none"> <li>- Corporate cultural differences between the two firms</li> <li>- Institutional and cultural distances between the two home countries</li> <li>- Loss of key people (executives, managers)</li> <li>- HR planning and downsizing</li> <li>- Personnel training</li> <li>- Changes in communication</li> </ul> <p>Not mentioned</p>

<p><b>2005</b></p>	<p><i>“Post-acquisition management: A phases approach for cross-border M&amp;As”</i>  - Penelope Quah and Stephen Young</p>	<p>Empirical  (Car industry)  - Structural cultural perspective</p>	<ul style="list-style-type: none"> <li>- Lack of integration planning</li> <li>- Level of integration (it resulted that the acquiring firm used the preservation strategy followed by an absorption strategy)</li> <li>- Post-acquisition changes (human resource planning and downsizing, training and changes to systems for communications and rewards; the replacement of the CEO; stronger financial controls; intensive efforts to reduce production costs; an increased importance given to marketing, especially customer relations and a new product market focus; and debt reduction.)</li> <li>- Timing of changes (is it better to implement change right away after the deal is closed, or it is better to “go slow” and prepare the employees for change and reorganization)</li> <li>- Cultural influences which can lead to conflict</li> <li>- Management and employee resistance</li> </ul>	<ul style="list-style-type: none"> <li>- Set up a M&amp;A team comprising a balanced mix of personnel from the acquirer and the acquired firm.</li> <li>- During the first year of the M&amp;A, the acquirer should conduct a full-scale cultural audit and communicate the results to employees involved in any post-acquisition changes.</li> <li>- Reassure the employees in the acquired firm of their future with the company after the M&amp;A deal is signed to reduce their fear and anxiety</li> <li>- The changes should not be made immediately after the deal, as the acquiring firm will be better able to target the changes required once its knowledge of the acquired organization increases</li> <li>- Adopt a phased approach of integration (from autonomy to absorption)</li> <li>- Both firms must anticipate the force of cultural influences during the post-acquisition process, particularly the acquirer, and be flexible and open to differences.</li> <li>- Understand that the interactions of cultures (national and organizational cultures) differ during the various post-acquisition phases.</li> <li>- Be sensitive to the implementation of post-acquisition changes on issues such as timing and obtaining co-operation from employees</li> </ul>
--------------------	---	---	---	---

2005	<p><i>"A corporate level perspective on acquisitions and integration"</i>- Abhirup Chakrabarti and Will Mitchell</p>	<p>Conceptual (No industry specified) -Structural cultural perspective</p>	<ul style="list-style-type: none"> <li>- Financial systems</li> <li>-Reporting forms and instructions</li> <li>- Direct or indirect mishandling of human resources (e.g. Mismanaging the process of blending in corporate cultures, employee relations policies, job descriptions, performance evaluation structures, salary structures, benefit plans, pension, medical insurance policies, and profit sharing plans)</li> <li>- Purchasing and marketing interfaces</li> <li>- The integration of production and technology</li> <li>- Resistance on the level of the acquiring business unit</li> <li>- Resistance at the level of corporation</li> </ul>	<ul style="list-style-type: none"> <li>- By implementing consistent general policies across all its acquisitions, an acquiring firm can control diversity in control mechanisms reporting structures, codification strategies, and other tangible routines that follow from acquisition activity.</li> <li>- To reduce resistance at the unit level, it is necessary to synchronize the efforts of finance, human resources, marketing, production, technology, and other personnel, leading to the strategic and administrative combination of the acquirer and target</li> <li>- To deter the resistance at the corporation level, limit the acquired firm to function autonomously with respect to business systems and goals and facilitate the sharing of resources and other coordination and strategic corporate functions.</li> </ul>
2006	<p><i>"Co-evolutionary integration: The co-creation of a new organizational form following a merger and acquisition"</i> - Mitleton-Kelly E.</p>	<p>Empirical (Engineering industry) - Social cultural perspective</p>	<ul style="list-style-type: none"> <li>- National and organizational cultural differences</li> <li>- Complicated structure</li> <li>- Matrix interfaces</li> <li>- Human behaviors</li> <li>- Relationships</li> <li>-Differences in communication styles</li> <li>- Not clear leadership/role of central team/management;</li> <li>- Identity</li> <li>- Lack of trust on both sides</li> <li>-Level of integration</li> </ul>	<ul style="list-style-type: none"> <li>- Mixed integration team, distributed leadership and distributed power</li> <li>- Define the desirable characteristics and behaviors for a matrix, and provide training and support for working in a matrix. Develop programs and events to facilitate informal networks, develop trust and foster loyalty to different groups</li> <li>- Clear and well communicated vision and direction</li> <li>- A leader who 'holds the space', articulates the vision and direction,</li> </ul>

			<ul style="list-style-type: none"> <li>identifies emergent new patterns quickly and develops partnerships/networks/alliances</li> <li>- Local autonomy</li> <li>- Effective and timely communication of the process, the reasoning behind it and the benefits and successes to be gained</li> <li>- Regular updates on progress</li> <li>- Key successes: “recognizing what we are doing that’s good”</li> <li>- Active involvement: open to everybody, so they feel part of the change process</li> <li>- Creating an enabling environment that facilitates co-evolutionary integration</li> <li>- An evolving business model - there is no single ‘right’ model.</li> </ul>
2007	<p><i>“Travel abroad or stay at home? Investigating the patterns of bank industry M&amp;As in the EU” – Figueira C., Nellis J. and Schoenberg R.</i></p>	<p>Empirical (bank industry)</p> <p>- No cultural perspective mentioned</p>	<ul style="list-style-type: none"> <li>- Selection of appropriate organizational structure</li> <li>- Differing national cultures</li> <li>- Differences in organizational cultures</li> <li>- Differences in managerial approach</li> </ul> <p>Not mentioned</p>
2007	<p><i>“Post-M&amp;A knowledge integration challenges, solutions and learnings”- Rashmi Haritwal and Ved Prakash</i></p>	<p>Empirical (IT industry; 2 case studies)</p> <p>- Social cultural perspective</p>	<p><b>First case study</b></p> <ul style="list-style-type: none"> <li>- Cultural integration challenge (the employees of the acquired Portuguese company found the idea of becoming part of an Indian firm “unpalatable”)</li> <li>- Specific to knowledge management the challenge consisted of differences</li> </ul> <p><b>Solutions for 1<sup>st</sup> case study</b></p> <ul style="list-style-type: none"> <li>- Relocation of integration officer</li> <li>- Project teams/ personnel rotation</li> <li>- Cross-visits</li> <li>- Training</li> <li>- Providing IT system (KNET) access to the employees of the acquired firm through ID’s and passwords</li> </ul>

			<p>in the taxonomy (“knowledge content repository”) of the acquired and acquiring firm</p> <ul style="list-style-type: none"> <li>- Transferring knowledge content of the acquired firm onto KNET and aligning it to the acquiring firm taxonomy</li> <li>- Creating a new webpage where it linked all acquired firm’s related content</li> <li>- Sending monthly newsletter to all the employees</li> <li>- Encouraging acquired firm’s employees to create expert profiles on the KNET</li> </ul>
			<p><b>Solutions for 2<sup>nd</sup> case study</b></p> <ul style="list-style-type: none"> <li>- Creating a separate section for the acquired firm on its KNET system which provided the capability to store files up to 500MBs; (this offered the acquiring firm’s employees the sense of importance, and a sense of being valued)</li> <li>- The knowledge content of the acquiring company was transferred on the KNET system and the duplicate files removed</li> <li>- Establishing direct meeting between both firms’ employees for a better collaboration and knowledge sharing</li> </ul>
2008	<p><i>“Value Leakages in mergers and acquisitions: Why they occur and how they can be addressed”</i></p> <p>- Christine Benedicte Meyer</p>	<p>Empirical</p> <p>- Airline, telecommunication, bank and non-life insurance industry</p> <p>- Structural cultural perspective</p>	<ul style="list-style-type: none"> <li>- Management rent-seeking of autonomy (refers to level of integration, in other words)</li> <li>- Rent-seeking behavior among employees refers to securing employment, compensations and work hours and slowing down the proposed downsizing</li> <li>- Reduced effort caused by</li> <li>- To reduce the risk of excessive autonomy the management needs to be changed, monitor the post-integration process and introduce a “second best solution”</li> <li>- The remedies for employees rent-seeking are: get the employees to commit to the main goals of the integration, settle the difficult issues as early as possible</li> </ul>



			demotivation and stress, loss of identity, perceptions of unfairness and attractive alternative job opportunities. This is the a result of high level of integration	and have alternatives to negotiate - For enhancing employees effort it is necessary to communicate, involve middle management and employees, treat the employees fairly
2009	<p><i>“Mergers and Acquisitions: Issues and Perspectives from the Asia-Pacific Region. Chapter 10 - Overcoming the challenges and issues of post-merger integration: Putting PMI in the driver’s seat in the M&amp;A process”– Kummer C.</i></p>	<p>Conceptual (No industry specified) -No cultural perspective mentioned</p>	<p>- Not having the management capabilities, employees and financial resources available -Senior’s management underestimation of amount of time and effort needed to be put into the process - Not enough own organizational slack and capacity -National, organizational, industrial, functional/professional cultural differences - loss of key people</p>	<p>Speed of implementation is a key success factor, therefore: - The acquirers have to prepare the integration as early as possible - Identify the key people that should be retained from an early stage - Quick and clear actions to be taken in order to restore/maintain the employees motivated - Also, it is necessary to have enough own resources available, especially generalists with the capability to handle the complete M&amp;A process. Although external advisors certainly can be of assistance, a certain amount of slack in organizational capacity is mandatory.</p>
2009	<p><i>“Integration in cross-border mergers and acquisitions” - Abhijit M. and Hajro A.</i></p>	<p>Conceptual (No industry specified) -Not clear</p>	<p>- Cross cultural interactions (national culture differences) produce increased stress, negative attitudes toward the merger, less cooperation, lower commitment, and executives with negative experiences quitting their jobs - A strong organizational culture of the acquired company leads to employees’ resistance to change, cultural clash, lower commitment and</p>	<p>- For a successful integration a low level of legitimacy of existing norms is necessary. This means that managers do not have to put pressure on host-country employees to conform to norms that are not legitimate in their cultural context if they want to avoid resistance.</p>

		<p>cooperation</p> <ul style="list-style-type: none"> <li>- Unwillingness of the strong-culture organizations to engage in exploration learning leads to failure of knowledge and best practices transfer</li> <li>-Level of integration influences the level of culture clash and acculturative stress</li> </ul>	
2010	<p><i>“The impact of cultural differences and acculturation factors on post-acquisition conflict”-</i> Riikka M. Sarala</p>	<p>Empirical (acquisition of Finish companies both in home country and abroad)</p> <ul style="list-style-type: none"> <li>– No industry specified</li> <li>- No cultural perspective mentioned</li> </ul>	<ul style="list-style-type: none"> <li>- National cultural differences (legal systems, administrative practices, and working styles) can lead to post-acquisition conflict, stress, negative attitudes and increase the top management turnover</li> <li>- Imperfectly shared understandings based on organizational culture differences between the acquiring and acquired firms cause ambiguity, uncertainty (about whose culture dominates) and may lead to post-acquisition conflict and resistance to change</li> <li>- Multiculturalism of the acquiring firm could lead to a lack of clear leadership in the acquiring firm, which could further increase uncertainty and negative personnel reactions</li> <li>- Organizational cultural preservation, particularly <i>on the part of the acquired firm</i>, could lead to situations in which organizational</li> </ul>

Not mentioned

			members treat one another unfairly and favor people who belong to their own in-group, ultimately increasing the post-acquisition conflict
			- Cultural preservation in <i>the acquiring firm</i> could possibly lead to excessive domination of the acquirer and the superiority treatment applied to the acquiring firm can also lead to conflict, employees' resistance to change, low levels of commitment, and higher rates of employee turnover
2011	<p><i>"Challenges and stakes of the post-acquisition integration process"</i> - Mariana Vancea</p>	<p>Conceptual (No industry specified)</p> <p>- Social cultural perspective</p>	<p>-Organizational culture incompatibility that leads to departure of key people and conflicts</p> <p>- Changing the managers and the work team creates stress and anxiety</p> <p>- National culture differences can also contribute to failure of integration</p> <p>- Inappropriate management style, remuneration system, recruitment, motivation and control can arise conflicts and uncertainties</p> <p>- Weak communication that increase uncertainty, stress and absenteeism, in the same time with the diminishing of the satisfaction level regarding work, commitment, the intention to stay in the new organization and the perception on the organization's credibility</p>
			<p>- In order to deal with cultural differences, 3 strategies are proposed: imposing one of the two cultures, create a new culture or maintain the two cultures (in practice the 1<sup>st</sup> strategy is adopted)</p> <p>- Management style must be clearly identified and understood in order to remove the uncertainties</p> <p>- To deal with the corporate culture differences: A "formal culture" must be defined and applied, mainly, destined to the internal and external communication in order to create the image and identity of the new company; An "operational culture" must be defined and applied, destined to the internal structuring</p> <p>- Communication is an important instrument to manage the changes occurred during the integration process</p>

			<ul style="list-style-type: none"> <li>- Workforce redundancy and reorganizations, in order to reduce costs, which can make the employees to feel uncertainty regarding their jobs, helplessness, demotivation which can generate the intention to leave the organization</li> <li>- High level of integration which affects the human factor more</li> </ul>	and must come from the top management and it must be continuous for the entire period of change
2012	<p><i>“The importance of post - acquisition integration for value creation and success of mergers and acquisitions- Sladjana Savovic</i></p>	<p>Conceptual (No industry specified) - Social cultural perspective</p>	<ul style="list-style-type: none"> <li>- Employee resistance, uncertainty and general mistrust created by the labor reductions and structural redesigning that is done with the goal of decreasing costs and redundancies</li> <li>- Not communicating to the employees the changes that are about to take place fact that creates confusion and anxiety</li> <li>- Inadequate management of human resources</li> <li>- Cultural incompatibility</li> <li>- Degree of integration</li> <li>- Speed of integration</li> </ul>	<ul style="list-style-type: none"> <li>- Applying a transformational leadership style during the change, in order to reduce resistance</li> <li>- Communicating to employees fast and efficient the anticipated effects of the changes that are about to be implemented decrease insecurity and worry and create a feeling of belonging</li> <li>- Having a clear and precise vision prior to the end of an acquisition</li> <li>- Forming a cross-fertilize management team</li> <li>- Early placement of integration managers and defining their roles</li> <li>- Managing cultural differences</li> <li>- Interconnectedness of the strategy and the structure</li> <li>- Fast implementation of changes helps achieving the strategic goals, promoting stability and reducing uncertainty in the organization</li> </ul>

2012	<p><i>"The handbook of mergers and acquisitions; Post-deal integration"</i>- Satu Teerikangas, David Faulkner, Richard J. Joseph</p>	<p>Conceptual (No industry specified) - Social cultural perspective</p>	<ul style="list-style-type: none"> <li>- Speed and timing of integration</li> <li>- Degree of integration</li> <li>- Poor or lack of organizational fit</li> <li>- Employee's resistance to change, ambiguity, uncertainty, cultural confusion</li> </ul>	<ul style="list-style-type: none"> <li>- Rapid actions are needed early in the integration phase, with regard to communications and changes that need to be implemented right after the deal. Thereafter, a gradual integration pace should be adopted</li> <li>- Different units of the target firm can be integrated to different degrees, or the degree of integration can change over time (autonomy in the beginning and absorption later)</li> <li>- In order to diminish the post-acquisition problems related to the organizational fit (which include culture, administrative practices, or personnel characteristics incompatibilities) it is mandatory to evaluate organizational and cultural aspects of the target firm during due-diligence</li> <li>- All the human resource issues can be solved through communication, socialization, mutual interaction, fair, equal and respectful treatment towards the employees of the target firm</li> </ul>
2013	<p><i>"Literature review to develop a study on how the human factor can influence the success or failure of mergers &amp; acquisitions"</i>- Adriana Garibaldi de Hilal</p>	<p>Conceptual (No industry specified) - Social cultural perspective</p>	<ul style="list-style-type: none"> <li>- <i>Resistance</i> manifested through lack of trust, cultural differences, low perceived levels of respect, perception of inequity or fear of not being able to develop the new skills required due to this change</li> <li>- <i>Uncertainty</i> appears due to the fact that employees cannot measure the real impact of the process on their</li> </ul>	<ul style="list-style-type: none"> <li>- The only way to deter the resistance is treating the situation with transparency, emphasizing the potential benefits that will derive from change as well as understanding the emotional experience of the individuals affected by the organizational change</li> <li>- Communication is the key factor in addressing the issue of employee</li> </ul>

---

respective future roles in the new organization, the probability of keeping their jobs or being laid-off, what organizational culture is going to prevail and what type of adaptation will be required of them

- *Employee expectations* are influenced by different factors such as, the stage of the M&A process, the role of employees and their perception of the integration process

- *Commitment* can decrease due to the tension and uncertainty in the work environment that causes frustration

- *Stress* is produced by the feeling of uncertainty and affects their perceptions, judgment and interpersonal relations

- *Turnover* is influenced by the employees' perceived fairness of how they are treated during the integration period

- *Employee retention* depends on the strategy implemented by the new organization: it's either assets oriented and employees come on second plan, or it is knowledge oriented and the retention of employees is of main importance

- *The role of communication* it is often underestimated or misused and can impact positively or negatively, the adoption of a new organizational

expectations and uncertainty

- In order to maintain a high level of commitment the new management should attempt to develop a common in-group identity by encouraging interaction between the two groups in a positive, cooperative and supportive environment

- For reducing stress it is recommended that integration managers take into consideration the following dimensions: career paths, work relationships, support networks, status differences, geographic specificities, and job security

- Several approaches can help in managing the organizational perceptions of fairness during an acquisition process: employees should receive training based on the criticality of their role in the new organization and their deficit of skills for those roles; new human resource management policies and procedures should use accurate, objective, and unbiased criteria and be consistent across both people and time; displaced employees should be treated with fairness and respect, providing adequate explanations of the need for change, and acknowledging the adversities that employees are facing

- Communication should provide timely and accurate information about what will happen to the organization and employees' jobs. It should start early and be ongoing including providing employee

---

			<p>culture, the change process as a whole, the level of employee stress, the management of uncertainty and employee expectations, the level of employee satisfaction and performance.</p>	<p>assistance programs and conducting meetings where employees can voice their views openly, listen to others, and take solace in the fact that others are experiencing the same emotions</p>
2015	<p><i>M&amp;A process: a literature review and research agenda”</i> - Rosa Caiazza, Tiziana Volpe</p>	<p>Conceptual (No industry specified - Social cultural perspective</p>	<ul style="list-style-type: none"> <li>- Remove duplicate functions</li> <li>- Achieve economies of scale</li> <li>- Increase capabilities, technology or intellectual capital</li> <li>- Integration challenges due to organizational and national differences between the involved firms</li> <li>- Incompatible management styles which lead to acculturative stress</li> <li>- Conflicting business values and communicating styles</li> <li>- Low levels of executive engagement in leading M&amp;A-related cultural change</li> <li>- Loss of key talent</li> </ul>	<ul style="list-style-type: none"> <li>- Integration of different cultures call for an active participation of people at all levels</li> <li>- To avoid the loss of key people it is necessary to make an employee retention strategy and performance measurement plan early in the deal</li> <li>- To deter conflicts and acculturative stress aroused from the differences of management, communicating styles or business values it is recommended to develop a communication plan, clarify reciprocal expectations, create a sense of shared identity (shared norms, ideologies and values) and positive attitudes toward the new organization</li> </ul>

## CHAPTER 4

### 1. Introduction

In this chapter will be brought into discussion a number of three reports of different consultancy firms which contain information about integration process challenges, as well as solutions. They will be used for verification of the results discovered in previous chapter, where the research questions were answered. Consequently, it is the author's intention to see if the issues and methods proposed in conceptual and empirical literature are similar to those from the consultancy studies, as well as if they differ from industry to industry or are common among industries. First, a short description of these companies will be provided, followed by the presentation of reports' content. Next step will consist of detecting the consistency between the findings from the previous chapter and the findings of these reports. In the end a summary will be presented.

### 2. Consultancy firms' presentation

**Cognizant Technology Solutions** is headquartered in Teaneck, New Jersey (U.S.) and offers custom information technology, consulting, and business process outsourcing services to businesses from 15 industries. *"It has 50 delivery centers worldwide and approximately 218,000 employees, is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000 and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world"*. (Cognizant's website)

**The Global Consulting Partnership** (TGCP) is also an American consulting firm with an experience of 25 years. Their service is offered to companies from around 20 industries. (TGCP's website)

**Deloitte US** is a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). *"Deloitte provides industry-leading audit, consulting, tax, and advisory services to many of the world's most admired brands, including 80% of the Fortune 500"* and cover more than 20 industry sectors. (Deloitte's website)

### 3. Reports' content

The report of **Cognizant** is dating from 2009. The stated issues and proposed solutions are the result of their experience as a consulting firm.



The problems which they suggest to focus on are: leadership; communication; implementation of a new shared corporate culture; reduction in redundancy and duplication of IT systems; harmonization of management compensation and management incentive systems; overcoming acquired staff's suspiciousness.

The proposed solutions include: develop detailed integration plan; mixed integration team; provide internal and external communication; provide training, coaching and team launch workshops in order to facilitate the creation of new culture; implement an effective leadership; execute HR policies, procedures and processes that support the Guiding Principles; refine and detail IT governance plans; constant review the integration plan and make changes for strengthen it. (Cognizant's report)

The interview-based report of **TGCP** was also written in 2009 and includes opinions of various directors, heads of HR department, of one leadership coach and the TGCP's chairman himself.

The revealed issues are: lack/poor integration planning; poor/lack of communication; lack of leadership; creating one corporate culture; speed of integration; loss of key people; IT systems differences; level of integration; and HR issues related to training, incentives plans, union grievances.

As for the solutions, they comprise: establishment of a robust integration plan; creation of mixed integration teams; consistent communication both internally and externally; speed, which refers to the sense of urgency (not haste) must accompany the integration; conduct HR due diligence review and develop compensation and benefits strategy for workforce integration; determine leadership assignments; develop employee-retention strategies; perform a skill assessment of the employees and provide training where necessary; adopt a "selective integration" approach (some area can be fully integrated, while others need to remain separate); be flexible, evaluate employees efforts and be prepared to change tactics to achieve the best results. (TGCP's report)

**Deloitte's** report called "Integration Report 2015 - Putting the pieces together" comprises a survey which was answered by 800 executives at US companies "*that had either engaged in a merger or acquisition over the preceding 24 months or were planning one in the next 12 months, or both*" (Deloitte's report, p.3) The companies were of all sizes, half of which were

from private sector and the other half from the public one and were covering more than 20 industries.

The challenges identified were referring to: lack/poor integration planning; lack/poor leadership support; IT system differences; poor/lack of communication; HR issues (employee training or alignment of incentives); speed of integration; cultural alignment; loss of employees; level of integration; and lack of internal resources to run a smooth post-acquisition integration - which require specific skills.

In terms of solutions were detected: establishing a thorough integration plan which include aspects as employee training or aligning of incentives; create a mixed integration team; having executive leadership support; clear and timely communication both: internal (with employees) and external (with customers); aggressive and fast integration (the “100 days” integration plan); adopt a phased approach of integration (starting by offering autonomy to the acquired firm and absorb it gradually); provide mentoring, coaching, and training to team members with leadership potential, regardless of their previous roles, to demonstrate a culture of open-mindedness and employee support. (Deloitte’s report)

According to the above findings it can be noticed that there are similarities as well as some differences for both: problems and solutions.

Similar issues identified in all three reports refer to: lack/poor communication; HR issues (training, alignment of compensations and incentives systems); poor/lack of leadership; IT system differences; and creation of one organizational culture which includes overcoming staff’s suspiciousness. Lack/poor integration planning; employees’ turnover; level of integration and speed of integration are mentioned only in TGCP and Deloitte’s reports. The later also stated as a challenge the lack of acquiring firms’ skills to run a smooth post-acquisition integration.

The solutions which can be seen in all reports make references to: establishing a robust, detailed, thorough integration plan; creating a mixed integration team; institute a clear and effective leadership; providing timely, consistent and clear communication on both internal and external level; develop HR strategies of retention, training/coaching/mentoring, compensations and incentives for the acquired firm’s employees in order to ease the creation of a new culture and to discover new potential. In Cognizant and TGCP’s reports can be found the recommendation for the acquiring firm to be flexible, to constantly review the

integration plan, evaluate employees' efforts and to make the necessary adjustments and changes. The speed and level of integration as solutions are present in TGCP and Deloitte's reports. However, the views of speed are contradicting since TGCP proposes to take quick decisions only when necessary and not to hurry the whole integration process, while Deloitte suggests implementing an aggressive and fast integration. (Ibid)

**Summary Table 4.1 – Highlight of the integration problems and solutions in consultancy reports**

<u>Number</u>	<u>Issues</u>	<u>Solutions</u>
1	Poor/lack of integration planning	Establishing a robust, detailed, thorough integration plan
2	Creation of one organizational culture (organizational cultural differences)	Creating a mixed integration team
3	Lack/poor communication	Providing timely, consistent and clear communication on both internal and external level
4	Level of integration/degree of integration	Adopt a phased or a "selective integration" approach
5	Loss of key people and other HR issues (training, aligning the compensations and incentives system)	Develop HR strategies of retention, training/coaching/mentoring, compensations and incentives
6	Poor/lack of leadership	Institute a clear and effective leadership
7	Speed of integration (too fast or too slow)	Contradictory solution: fast and/or slow
8	IT system differences	Be flexible; constantly review the integration plan, evaluate employees' efforts and make the necessary adjustments and changes

*Source: Author based on the information from consultancy reports*

#### **4. Consistency determination of theoretical, empirical and consultancy reports' findings**

In this section will be reminded the issues and solutions identified in conceptual and empirical articles and will be compared afterwards to those discovered in the consultancy reports. Another purpose is to see if a different answer will be found for the third research question which aimed to identify if the problems and solutions faced by the companies vary from industry to industry.

Among the most cited issues in the conceptual articles encounter:

- National and organizational cultural differences;

- Poor/lack of communication;
- High degree of integration;
- Loss of key people;
- Lack of leadership;
- Speed or timing of integration (too fast or too slow)
- Not having the management capabilities, employees and financial resources available;
- Acquiring firm's unwillingness to engage in exploration learning. (Schuler & Jackson, 2001; Risberg, 2003; Hitt et al, 2004; Abhirup Chakrabarti & Will Mitchell, 2005; Kummer, 2009; Abhijit & Hajro, 2009; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

In the empirical studies the problems identified were:

- Poor/lack of integration planning;
- National and organizational cultural differences;
- Poor/lack of communication;
- Level of integration (high degree);
- Loss of key people;
- Lack of clear leadership;
- Speed or timing of integration (too fast or too slow);
- IT systems differences. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Sarala, 2010)

As can be noticed above, the most often mentioned challenges in the consultancy reports were:

- Poor/lack of integration planning;
- Creation of a new shared organizational culture (refers to organizational cultural differences);
- Lack/poor communication;
- Level of integration/degree of integration;
- Loss of key people and other HR issues (training, aligning the compensations and incentives system);
- Lack of leadership;

- Speed of integration (too fast or too slow);
- IT systems differences. (Consultancy firms' reports)

As can be seen, six problems were detected in all types of studies and they are: organizational cultural differences; poor/lack of communication; level of integration; loss of key people; lack of leadership; and speed or timing of integration (too fast or too slow). Interestingly, the national cultural difference is not mentioned in the consultancy reports. Moreover, there are more similarities between the challenges of practical studies (empirical and consultancy). For example, poor/lack of integration planning and IT systems differences are mentioned in both empirical studies and consultancy reports, but not in the conceptual literature.

Some major differences can be noticed between last two challenges mentioned in theoretical articles (the lack of management capabilities, employees and financial resources; and acquiring firm's unwillingness to engage in exploration learning) and those stated in consultancy reports, which were referring HR issues (training/mentoring and aligning the compensations and incentives systems).

In conclusion, it was detected that over half (six out of eight) of the problems identified in the consultancy reports were also present in both: conceptual and empirical literature. Moreover, except for these common issues found for all types of studies it was noticed that two more challenges from empirical cases were also found in the consultancy reports. This means that 100% consistency between the practical types of studies was discovered. However, some differences were noticed as well and one explanation for this situation can be that they occurred due to the nature of problems' selection. Both theoretical and empirical articles were divided into two or three groups and from each group were presented the top five most often mentioned issues. This means that the priority feature used in this selection has led to the emergence of these differences.

The solutions provided by the scholars of the theoretical articles comprise:

- Careful planning and as early as possible of the integration process;
- Announcing as soon as possible and taking rapid actions early in the integration phase with regard to communications and changes in management structure, layoffs, restructuring;
- Make an employee selection and retention plan early in the deal, or retain them by offering financial incentives;

- Use open, rich and frequent communication, socialization, mutual interaction and transparency to solve the human resource issues;
- Offer a degree of autonomy;
- Take quick actions in order to keep the employees motivated;
- Have a certain slack in organizational capacity – this refers to having people able to handle the complete M&A process. (Schuler & Jackson, 2001; Risberg, 2003; Hitt et al, 2004; Abhirup Chakrabarti & Will Mitchell, 2005; Kummer, 2009; Abhijit & Hajro, 2009; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

In the empirical literature the following solutions were provided:

- Creating a mixed integration team (from both acquiring and acquired firm) and relocation of integration manager;
- Providing a rapid, rich and continuous communication throughout the integration process;
- Retaining key employees by offering them financial incentives;
- Offer a degree of autonomy to the acquired firm;
- Making usage of social controls (introduction programs, training, cross-visits, rotation of personnel, celebrations and similar socialization rituals in an informal environment, transition teams);
- Actively involve the middle management and employees in the integration process;
- Speed of integration as solution presented contradictory findings: some cases suggested that is better to implement the changes fast, while others proposed a slow pace. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Epstein, 2004; and Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Sarala, 2010)

As for the solutions offered by the consultancy reports they refer to:

- Establishing a robust, detailed, thorough integration plan;
- Creating a mixed integration team;
- Institute a clear and effective leadership;
- Adopt a phased integration (from autonomy to absorption) or a “selective integration” approach;
- Providing timely, consistent and clear communication on both internal and external level;

- Develop HR strategies for employees-retention, training/coaching/mentoring, compensations and incentive;
- Be flexible; constantly review the integration plan, evaluate employees' efforts and make the necessary adjustments and changes.
- Contradictory solution for speed of integration: in one report it is recommended to take quick decisions only when necessary and not to hurry the whole integration process, while in the other one it is suggested to be implemented an aggressive and fast integration (Consultancy firms' reports)

By looking at the above stated solutions it can be observed that only two of them are present in all these types of articles, which indicates a lower degree of consistency compared to issues' degree of consistency. These common solutions are: make usage of communication in order to allay employees' fear and uncertainty; and develop an employee retention, compensation and benefits strategy. Nevertheless, it can be seen again that there are more similarities between the solutions of empirical studies and those of consultancy reports, as happened in the case of problems category mentioned above. Creation of mixed integration teams, offering training to the acquired firm's employees and even the contradicting views upon the speed of integration are the other solutions which can be noticed in practical types of studies. An interesting point to note is that in consultancy reports "training" is the only kind of social control specified, while in empirical literature it was discovered that firms which used multiple types of social controls such as: introduction programs, cross-visits, rotation of personnel, celebrations and similar socialization rituals in an informal environment and transition teams ensured the success of the integration and of the acquisition itself. Another difference consists of the fact that solutions related to level of integration are noted in consultancy reports as adopting a phased-approach of integration (from autonomy to absorption) or a "selective integration" (integrate just some areas), while in theoretical and empirical articles it is suggested to offer a proper degree of autonomy in the beginning of the process. The speed of integration also falls into the category of differences. If in the theoretical literature it is recommended to plan the integration, announce the changes related to management structure, layoffs, restructuring and to make the employee selection and retention as early as possible, in the empirical literature and consultancy reports the views are divided between fast and slow approach.

There are two more solutions presented in consultancy reports which were not found in either conceptual or empirical articles and they address: the establishment of a clear leadership and being flexible. The later refers to constantly reviewing the integration plan, evaluating employees' efforts and making the necessary adjustments and changes. (Ibid)

To sum up, the solutions appear to be focusing on taking care of people related issues such as their retention, training, compensations and benefits offering and use intensive communication. It was also discovered that exists a higher degree of consistency between solutions presented in empirical articles and those stated in consultancy reports.

The last purpose of this sub-chapter is to identify if the problems and solutions presented in consultancy reports are industry dependent. The results of previous chapter showed that they are not and most of the solutions can be generalized.

The consultancy reports do not mention any specific industry when specify the issues or solutions. However, *Deloitte*'s survey-based report was done with the help of 800 executives from 20 industries, TGCP's interview-based report included opinions of various directors, heads of HR department and of the *TGCP*'s chairman himself (who deals with firms from 15 different industries), and *Cognizant*'s report is based on its experience gathered as a consultancy firm which operates in 20 industries. Considering this information and the fact that half of the total number of challenges (five out of ten) and more than half of solutions (five out of eight) are present in all reports, makes the author to reach the conclusion that they are not industry specific. Moreover, other three problems were found common in two of the three consultancy reports (TGCP and Deloitte's). Consequently, this finding is in accordance with that identified for the third research question in chapter three.

## **5. Summary**

As stated in the beginning of this sub-chapter, the purpose was to detect what is the degree of similarity between the problems and solutions presented and discussed in previous chapter and those found in the consultancy reports. Moreover, it was aimed to see if the findings of consultancy reports reinforce the answer identified in chapter three for the last research question or it contradicts it. To remember, that question's objective was to discover: "What are the common and different issues faced by companies from diverse industries? Do the applied measures, for ensuring the success of integration process, change



between industries? Can these actions be generalized and used universally, no matter the industry, or they need to be particularized?”

After presenting and analyzing the challenges stated in theoretical, empirical and consultancy articles, the author noticed that six out of eight were the same in all these articles. They were referring to: organizational cultural differences; poor/lack of communication; loss of key people; lack of leadership; high degree of integration; and speed or timing of integration (too fast or too slow). However, two more issues (poor/lack of integration planning and IT systems differences) were found to be present only in empirical studies and consultancy reports, but not in conceptual literature.

In regard to differences, the national cultural issues do not appear in the consultancy reports. This can owe to the fact that the authors of the reports took into consideration only national acquisitions when identified the challenges and solutions and not the cross-border ones.

Also, there were two problems which were cited only in theoretical articles (the lack of management capabilities, employees and financial resources; and acquiring firm's unwillingness to engage in exploration learning) and other two which were specified only in consultancy reports HR issues (training/mentoring and aligning the compensations and incentives systems); and the lack of skills to run a smooth post-acquisition integration. (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Risberg, 2003; Hitt et al, 2004; Epstein, 2004; Abhirup Chakrabarti & Will Mitchell, 2005; Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Kummer, 2009; Abhijit & Hajro, 2009; Sarala, 2010; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015; Consultancy reports)

The degree of consistency for solutions was lower compared to the one of issues, since only two of them (out of a total eight) were common to all types of articles. They were referring to: making usage of communication in order to remove employees' fear and uncertainty; and develop an employee retention, compensation and benefits strategy. However, other three solutions (creation of mixed integration teams, offering training to the acquired firm's employees and even the contradicting views upon the speed of integration) were cited in both: empirical studies and consultancy reports. (Ibid)

As for the identification of problems and solutions according to the industry in consultancy reports, it couldn't be done in a similar manner as in Chapter 3 because no specific industry was mentioned. However, these reports were written by relying on firm's experience, interviews or survey and all of them are based on the study of a variety of industries. Consequently, the challenges specified in the reports are those which were met most often in different cases from different industries. Similarly, the methods used to overcome the issues are those which guaranteed a high success rate for all industries.

Hence, these findings reinforce the answer discovered for the third research question in previous chapter. More specifically, the problems which companies face during the integration process and the methods used to overcome them are not industry specific. (Consultancy reports)

In conclusion, with all the above considered a high degree of consistency was identified between chapter three and current chapter.

## CHAPTER 5

### 1. Introduction

The author of this project has examined the conceptual, empirical and consultancy literature on post-acquisition integration in chapters 3 and 4. We have noted a high degree of consistency in the current level of knowledge on the issues. This chapter discusses evidence from two Danish cases. The aim is to determine the extent to which managers from any particular country (in this case Denmark) approach the post-acquisition integration issues and to determine how their approaches are consistent with current level of knowledge in the field. First, a short description of companies from the case studies will be provided. After that, the problems encountered during the integration process and the means used by these firms to solve them will be presented and analyzed. The chapter will end with a summary of the main findings.

### 2. Case studies presentation

#### 2.1 Wavin Group (Nordisk Wavin) - Vilnius Polymeric Goods Factory (VPGF)

This first case study was written in 2008 by two students from Aalborg University for the Centre for International Business, under the supervision of John Kuada. (Case study, p. 2) The information about companies' history will be gathered by using their official website, annual reports and the case study (which can be found in annexes).

The **Wavin Group** was founded in 1955 by Johan Keller in Zwolle, Nederland with the purpose to offer a clean drinking water to people and solve the problem of pipe corrosion. Its name comes from the words' contraction **W**Ater and **V**INyl. Two years later (1957) the company opened a factory in Denmark, which over time became the center of operations for Nordic area (thus the name Nordisk Wavin). *"Today Wavin Group is the leading supplier of plastic pipe systems and solutions in Europe."* (Wavin's website) It is headquartered in the same city where it was founded (Zwolle) and is present in 30 countries. It also has approximately 5.500 employees and the revenue was reported to EUR 1.2 billion in 2014. (Wavin's annual report, 2014, p. 5) However, Nordisk Wavin's geographical market area is not limited only to Scandinavia, but also includes the Eastern Europe and Baltic countries. Its operations in Lithuania constituted the focus of this case study. (Case study, p. 3)

**Vilnius Polymeric Goods Factory (VPGF)** was a Lithuanian company founded in 1960, under the control of country's Ministry of Housing and Construction. Its core activities consisted of manufacturing various products such as: *“polymeric products as floor coverings, profiled finishing products, molded parts for ventilation and electrical installation, washable wallpaper, sealants, as well as several kinds of glue”*. (Case study, p. 4) In 1997 the company entered into a joint venture with: Nordisk Wavin (Denmark), Wavin B.V (Netherlands, the Holding company of the Wavin group) and the Danish Investment Fund (IØ). As a result of this joint venture the Lithuanian factory was renamed: Wavin Baltic UAB. In 2002, the Danish Investment Fund (IØ) and the Government of Lithuania sold their stock to Wavin Group which, in this way, became the sole owner of the formerly VPGF. (Ibid)

### **2.1.1 Challenges encountered by Nordisk Wavin in Wavin Baltic**

- Speed of integration
- Differences were noted in regards to practices, as the Lithuanian firm was having in-house non-core services such as: transportation or maintenance and also in terms of systems as their accounting system dated back to 1932.
- Poor communication was hampered due to language barriers as many of the employees had limited English skills at that time, but also due to the fact that Danish managers were making changes without informing the employees about them.
- National cultural differences – the respect for authority embedded in their culture during Soviet's domination in Lithuania
- Organizational cultural differences – the Lithuanian employees were used to receive orders, be told what to do and not making any decision without managers' consent.
- Level of integration - Danish parent company decided to take full control of the Wavin Baltic and sent Danish expatriates to Lithuania
- Management styles differences – Danish managers were taking decisions without consulting the Lithuanian side (transactional leadership style), while Lithuanian managers wouldn't take decisions without Danish managers' consent (were afraid to make decisions)
- Human resource issues in regard to training (not offering a proper training to the employees), downsizing and retention of the employees
- Unclear vision and mission (poor integration planning) - which created confusion among employees

- Unclear leadership – also led to the increase of uncertainty and confusion, as they didn't know what is the direction they were heading to
- Decrease of employees' commitment – employees were not fulfilling the tasks and were finding excuses to stop) and increase of their uncertainty (Case study, pp. 8-13)

### **2.1.2 Solutions implemented by Nordisk Wavin in Wavin Baltic**

- Relocation of integration managers
- Fast implementation of changes related to downsizing (from 400 employees were reduced to 150 right after the deal and in the next two years the number was lowered to 40), outsourcing non-core services as: transportation and maintenance and other measures related to HR, systems, practices and technology
- Project teams - Nordisk Wavin has established a Nordic Management Committee, where country managers and functional managers meet each other on a monthly basis to work on regional projects and to share their experience
- Financial incentives – the retention of the remaining employees was done by increasing their salaries and offering them additional incentives such as renting sports facilities and swimming pools
- Usage of some social controls – transition team, cross-visits, socialization activity involving employees and their families (painting contest for employees' children)
- Absorption approach of integration – in the beginning, Danish expatriates imposed to Lithuanian their working style. In time (after 2002) they allowed to Wavin Baltic's managers to propose solutions while they would just assess them and together would come to a common ground solution.
- Flexibility – Changes of the integration planning were made (during the integration); they refer to clarification of vision, mission and the direction the company is heading to, as well as allowing Lithuanian managers to exercise their decision-making skills. (Case study, pp. 8-13)

## **2.2 Aalborg Industries - Vinashin Group**

This case study was prepared by Li Dao in 2012 and it has as basis the materials gathered for her own dissertation work (in 2010), *“and an old version draft by Lam Dao based on her explorative interviews with informants at the company”*. (Case study, p. 2)

Since the official website of Aalborg Industries was not found anymore, all the information about its history will be collected by relying only on the case study. The history about Vinashin Group will be presented by using the data from the case study and its official website. As for the problems encountered by Aalborg Industries during the integration process and the used methods to overcome those challenges, they will be indicated in accordance with the information provided in the case study.

**Aalborg Industries A/S** was founded in 1912 in Aalborg, as a boiler manufacturer for shipyard vessels by a chief engineer and his brother from Frederikshaven. In the 1920s-30s periods their business grew, but in 1937 it nearly collapsed due to financial problems occurred under the Depression. In order to maintain people's jobs, Aalborg city took over the shipyard, but it sold it by the end of the same year to "*a Danish shipping giant who ran it until 1987*". (Case study, pp.2-3) Under this ownership it received the name of Aalborg Shipyard and continued to develop new models of boilers which were delivered to numerous international shipyards and ship owners. In 1978 it was set up the first abroad subsidiary (in Nederland) which was in charge with the after-sales services. This establishment represented the beginning of the company's global expansion, as it managed to have "*3000 employees worldwide, more than ten sales subsidiaries and branch offices, 20 marine global sales representatives, and three production subsidiaries in China (since 1995), Brazil (2000), and Vietnam (2004) apart from the production unit in Aalborg*". (Case study, p. 3)

Its sectors of activity are: marine and industrial, of which the first one represents 85% of the total sales. No wonder that Aalborg Industries "*is recognized as a world leading marine boiler engineering company and a major supplier of inert gas systems, thermal fluid systems, and shell and tube heat exchangers*". (Ibid) It is also known as "Best in Class" for the quality of its products and service, fact that led to a long-term relationship with the customers. (Ibid) In December 2010 Aalborg Industries A/S became part of the Swedish firm Alfa Laval owner and received the name: Alfa Laval Aalborg. (Case study, p. 2)

In 1972 the government of Vietnam established the Vietnam Shipbuilding Union in order to consolidate the shipbuilding industry. **Vinashin Group** was founded only in 1996 when the Prime Minister decided to fortify "*20 shipbuilding-related companies, including 7 shipyards which were held under the Ministry of Transport*". (Vinashin's website) Through different partnerships and joint ventures with companies from Japan, Korea and Taiwan, Vinashin

managed to own “*more than 100 subsidiaries including shipyards, finance companies, steel manufacturers, construction companies and to support industry companies*”. (Case study, p. 5) Between 2001 and 2010 the government established a program of developing the shipping industry. During this period (more precisely in 2004) the company entered into a joint venture with the Danish firm: Aalborg Industries. However, the actual activity of Aalborg Industries in Vietnam began only in 2006 when the new factory was inaugurated. Three years later (namely 2009) the Danish company took the full ownership of the manufacturing plant. (Case study, p. 5)

### ***2.2.1 Challenges encountered by Aalborg Industries in Aalborg Industries Vietnam***

- Employee resistance
- National cultural differences - the Vietnamese tend to work interdependently rather than independently, and in a manner that is relationship-oriented rather than task-oriented
- Organizational cultural differences – Vietnamese employees were not used to decision-making
- Level of integration – high degree of integration: the expatriates were imposing the changes
- Poor communication – due to language barrier
- Management styles differences – straight forward Danish style, compared to Vietnamese relationship-oriented style
- Working style differences – the Danes solve the issues very quickly, while the Vietnamese need to be reminded over and over again to do the job
- Lack of transparency between Danish managers and Vietnamese middle managers - they were seen as “links” between Danish integration manager and the employees who were producing the boilers, because of their capability to communicate with the employees in their own language. (Case study, pp. 7-18)

### ***2.2.2 Solutions implemented by Aalborg Industries in Aalborg Industries Vietnam***

- Fast implementation of the changes – in only 3 years the Danish expatriate built a functional factory
- Social controls: training – was performed even before the activities began and continued after the factory was built too; cross-visits
- Mixed integration team

- Relocation of integration managers
- Absorption-approach of integration – only after a period of 3 years the Danish managers offered to Vietnamese employees the opportunity to exercise their decision-making skills.
- Clear leadership
- Flexibility – the integration plan was revised and changes were made; after about one year since the factory was inaugurated the Danish integration manager was replaced with another one, and changes in terms of communication were implemented, as well as in regard to training and management
- Improved communication – by establishing group meetings between the new Dane integration manager and the management group composed of Vietnamese employees (the production manager, the quality manager, the logistics manager, and the chief accountant); and by going personally to make a tour of the factory every day and talk to the “blue collar” workers. (Case study, pp. 7-18)

### **3. Case studies analysis**

Now that problems and solutions of both case studies were presented, their analysis and interpretation it is required. As stated in the beginning of the chapter, the aim is to see how Danish managers' approaches to integration coincide to the proposed methods in the three types of literatures introduced above: theoretical, empirical and consultancy.

However, before doing that, a short interpretation of the challenges identified in these two case studies will be undertaken. As can be noticed they make reference to poor integration planning and unclear leadership, speed of integration, HR issues (training, employee retention strategy, downsizing/turnover, employee resistance or decrease of commitment), cultural differences, level of integration and poor communication. As results from the case studies, the poor communication produced by language barrier, cultural differences, as well as the high degree of integration and the fast approach of integration led to employees' resistance, confusion, uncertainty and reduction of their commitment. Cultural differences did not create frustration only among the acquired firms' employees but also among the expatriates of the acquirer companies. One example is shown in the second case study (Aalborg Industries Vietnam) when the Vietnamese Quality Manager came to the Danish integration manager saying that they do not have enough welders in order to conduct a test. Hearing that, the Danish manager asked the Vietnamese manager to measure the test



materials, and then to make a list with the materials which can be used for the test. The next day the Vietnamese manager came with the list and announced the integration manager that they have the necessary number of welders. After two-three weeks the Danish manager had to check again the number of welders and the answers which he received was that they do not have enough of them. When asked how this situation is possible, the Vietnamese manager said that what he meant, when he came with the list of materials which indicated the necessary number of welders, was not that they have them, but that they need to have a higher amount of welders. The Danish manager affirmed that he met this kind of behavior among many other Vietnamese employees and he was feeling that they were trying to run away from problems. (Aalborg Industries Vietnam case study, p. 14) Interestingly, this “running away from responsibilities attitude” was also seen in the first case study (Wavin Baltic), where it was described by one of the Danish expatriates as: *“They appear to reason this way: how can I find the first problem so that I can stop.”* (Wavin Baltic case study, p. 11) On the other side, the Danish managers’ imposing and straight forward manner of working and talking was seen in both case studies as an “arrogant attitude”. This contributed to the loss of respect and enthusiasm among Vietnamese employees. (Wavin Baltic case study, p. 12; Aalborg Industries Vietnam case study, p. 15)

The fast implementation of the changes aroused some mixed feelings among the managers of the Lithuanian company, from the first case study (Wavin Baltic). They were shocked and surprised when Danish managers outsourced the transportation and maintenance services in just two months. One of them declared: *“Outsourcing services is good. But the problem is that these services are not well developed in Lithuanian and it is not cheaper to acquire them from outside”*. (Wavin Baltic case study, p. 10) Also, the poor training offered by Nordisk Wavin to Wavin Baltic’s employees raised dissatisfaction among them as it is stated by a Lithuanian manager: *“Workers would come to me and complain that he (the expatriate manager in production) is too restrictive in showing what to do....”* (Wavin Baltic case study, p. 12)

To sum up, it is noticeable that the above mentioned issues are similar to those detected in theoretical, empirical and consultancy literatures.

The solutions identified in both case studies refer to: relocation of integration managers; fast implementation of changes; and usage of some social controls (training, cross-visits, and in

the first case study were also used: project teams and some socialization activities involving employees and their families like the painting contest for employees' children); absorption approach of integration; and flexibility. The last one refers to the evaluation of the integration plan during the integration process and making the necessary adjustments.

In the first case study (Wavin Baltic) this flexibility consisted of clarifying the plan and the goals which needed to be followed. One of Lithuanian managers declared: *"I cannot say that the plan was very clear at the beginning. There was a plan however we were a young organization without experience we did not have a consistent plan like we have now. Now we have full clarity, we know the direction we are going to, we know our goals, our mission and vision..."* (Wavin Baltic case study, p. 13)

Another change made in this case study was referring to allowing Lithuanian managers to exercise their decision-making skills, as can be seen from the following statement: *"Initially the Danish expatriates were visible. They virtually took control over every aspect of the management. But later on, they became less visible. They allowed us to make proposals. We would suggest and they would assess our proposals. In this way we would come to the solution we both deemed correct and agreed upon."* (Wavin Baltic case study, p. 13)

In the second case study (Aalborg Industries Vietnam) the flexibility was manifested through firing the Danish integration manager and being replaced with another one; improving communication with the joint venture partner from that time, and making some changes in regard to training and management. Therefore, the new Danish integration manager decided to reduce the number of Danish technical supervisors from two to one and to allow the Vietnamese employees to run the company. He, also, established a new management team formed from the production manager, the quality manager and the logistics manager who were Vietnamese. In the beginning, frequent meetings between this management team and the new Danish integration manager were having place. (Aalborg Industries Vietnam case study, p. 16) In this way the communication between these two parts was improved and the Vietnamese middle management was not seen as a "link" between Danish side and "blue collars" workers, as the first Danish integration manager affirmed: *"All of them (the middle management) they are the links to the blue-collar workers. We are here to produce boilers, and they are produced by blue-collar workers. So we really need the link between me, who only speaks English, and the blue-collar workers, who only speak Vietnamese."* (Aalborg Industries Vietnam case study, p. 13)

Another adjustment done by the new Danish integration manager consisted of “*getting a good connection with Vinashin*”- the joint venture partner. This measure was required due to the fact that previous integration manager had disagreements with Vinashin as well as with the local deputy managing director, which led to “*almost blocked communication and coordination between the partners*”. (Aalborg Industries Vietnam case study, pp. 17-18) Consequently, the new integration manager started to visit the Vinashin office on a regular basis and involved the leaders over there in decisions like: “*Aalborg Industries’ discarded manufactured articles or assisting in the recruitment of a chief accountant*”. (Aalborg Industries Vietnam case study, p.18)

Sometimes, on board meetings were shared information that in Denmark would have not been allowed to be shared. The Danish manager affirmed: “*They want to go down and control invoices, purchases, why did he (this guy) get the job, but not him (that guy), and such things... So the board meetings sometimes are such things.*” In his view, all these measures led to the improvement of the relationship between Aalborg Industries and its partner, as he declared: “*Now we have a much better relationship. We can use them.*” (Ibid)

The level of integration is, however, different to that recommended in the three types of literatures discussed in **Chapter 3 and 4**. In the conceptual and empirical articles it was suggested to offer a proper degree of autonomy to the acquired firm, while in the consultancy reports it was proposed to adopt a phased-approach of integration (a gradual integration: from autonomy to absorption) or a “selective integration” (integrate some areas). As can be observed in the case studies, Danish managers opted for full integration. Undoubtedly, this method had its downside, as it led to employees’ resistance, decrease of their commitment and enthusiasm. (Wavin Baltic case study, p. 11; and Aalborg Industries Vietnam case study, pp. 9-10) Surprisingly, Danish managers started to offer to local employees and managers the possibility exercise their decision-making skills and to run the business themselves after some years since the joint venture was formed. In Wavin Baltic’s case this happened after 5 years, as can be seen in the following statement: “*... later on, they (Danish managers) became less visible. They allowed us to make proposals. We would suggest and they would assess our proposals. In this way we would come to the solution we both deemed correct and agreed upon.*” (Wavin Baltic case study, p. 13) In Aalborg Industries’ case this happened sooner, only after 3 years since the joint venture was signed

and it was under the supervision of the new Danish integration manager (as the first one was fired). This autonomy started with the establishment of the new management team. As the new Danish manager stated: “...*they should run the company, as an independent Vietnamese company, with a Danish manager, ok, but they should run the company.*” He further mentioned that planning was done 100% in-house and in fact “*97-98% by the Vietnamese*”. (Aalborg Industries case study, p. 16)

In regard to speed of integration, it can be noticed that in both case studies the implementation was done on a fast pace. Therefore, this method is in accordance with the one proposed in theoretical, empirical and consultancy articles, which was referring to selecting the employees, announcing and implementing the changes in relation to management structure, layoffs, restructuring, as soon as possible.

In addition to the common measures detected in both case studies which were presented above, have also been noticed some different ones. For example, in the first case study (Wavin Baltic) Danish managers offered financial incentives and rented sports facilities and swimming pools for the remaining employees. In the second case study (Aalborg Industries Vietnam), a mixed integration team was formed and clear leadership measures were undertaken by both Danish managers (the first one who was fired and his replacement).

An overview of the above indicated solutions show that the fast speed of integration and training offered to the employees can be found in all three types of literatures. Creation of mixed integration team is in accordance with the suggestions of both: empirical and consultancy reports. Retaining the employees through financial incentives was a recommendation common to theoretical and empirical articles. Relocation of integration managers and usage of other types of social controls like: cross-visits, project teams and some socialization activities involving employees and their families can be seen in empirical studies. Instituting a clear leadership and being flexible were the two methods proposed in consultancy reports. (Birkinshaw et al., 2000; Larsson & Lubatkin, 2001; Schuler & Jackson, 2001; Risberg, 2003; Ranft & Lord, 2002; Vaara, 2003; Hitt et al, 2004; Epstein, 2004; Quah & Young, 2005; Abhirup Chakrabarti & Will Mitchell, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Kummer, 2009; Abhijit & Hajro, 2009; Sarala, 2010; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015)

Consequently, except for the integration approach, all the other measures discovered in these case studies are consistent with the current level of knowledge in the field.

#### **4. Summary**

This chapter aimed to use two case studies from a particular country (Denmark) in order to detect if the approaches to integration and the solutions implemented by Danish managers are in accordance with those identified in *Chapter 3 and 4*.

The analysis of the results indicated that some of the solutions can be found in all categories of articles, others just in the empirical or consultancy ones, or others could be seen in two out of the three types of literatures. For example, the fast speed of integration used in these case studies was suggested in theoretical, empirical and consultancy studies, while the creation of mixed integration team was proposed in both: empirical and consultancy reports. The retention of employees through financial incentives was recommended in theoretical and empirical articles, while relocation of integration managers and usage of other types of social controls like: cross-visits, project teams and some socialization activities were present only in empirical studies. The solutions referring to clear leadership and flexibility could be noticed just in the consultancy reports. (Ibid)

The only difference consisted of the choice of Danish managers in regard to the level of integration, as they opted for absorption approach. However, neither of the solutions applied in both case studies are foreign to the conceptual, empirical or consultancy literatures. Therefore, no innovative method was used by Danish managers in order to overcome the challenges, fact that leads to the conclusion that their approaches were consistent with the current level of knowledge in this area.

## CHAPTER 6

### 1. Introduction

In this last chapter it is intended to discuss and interpret the findings through the lenses of some theories. Therefore, the MBI model of Joseph J. DiStefano and Martha L. Maznevski (2000) will be introduced. This theory proposes some measures that need to be followed when people from different cultures are brought to work together, if the desired results of the interactions refer to high performance or value creation. Consequently, the MBI model is particularly appropriate for the post-mergers and acquisition integration process, because the quality of interaction and relationships established between the members of the two organizations have a tremendous impact upon its outcome.

The next theory refers to Hofstede's cultural dimensions. The six dimensions: power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence will be presented for Denmark and it is aimed to identify how Danes' behavior is described. After that, these findings will be compared to the actions and behaviors of the Danish managers as results from the two case studies presented in *Chapter 5* and see to what degree they coincide.

After the presentation of each theory, its interpretation will follow. In the end, a conclusion upon these discoveries will be drawn and recommendations will be provided. The main key points of the chapter's findings will be found in a summary.

### 2. MBI model presentation and interpretation

The authors of this model suggest three steps which have to be followed in order to create a good communication and interrelation between people with different cultural background, and they refer to: mapping, bridging and integrating. Each phase involves three other sub-steps and they will be described below.

Mapping refers to understanding the differences which can be done by: defining the territory, drawing the map and assessing the terrain.

*Defining the territory* involves identification of the differences which will pose difficulties and those which will help people to interact. (DiStefano & Maznevski, 2000, pp. 48-49)

*Drawing the map* is the process where the team members are asked to answer to a set of questions which address the issues: relationships among people, relationships to

environment, mode of activity, human nature and time. According to the answers of the individuals a map can be drawn. These answers can be: collective, hierarchical or individualistic for the first issue mentioned above; harmony, mastery, subjugation for the second issue; being, doing, thinking for the third issue; good, evil, changeable, unchangeable for the fourth issue; and past, present and future for the fifth issue. (DiStefano & Maznevski, 2000, p. 61)

*Assessing the terrain* refers to understanding the past, current and future problems and solutions by using the map created in previous step. (DiStefano & Maznevski, 2000, p. 49)

Bridging also has three sub-stages and they comprise: prepare the ground, decenter to other shore and recenter to span.

*Prepare the ground* suggests to use the differences in order to encourage the motivation and confidence of team members that every difficulty can be overcome. (DiStefano & Maznevski, 2000, p. 51)

*Decenter to the other shore* means that each individual is taking the differences he/she knows about his/her team member and tries to adapt their own behavior and way of thinking in accordance with that of the colleague. (Ibid)

*Recenter to span* involves “*finding or developing shared ground upon which to build a new basis of interacting*”. This shared ground needs to be centered on defining the situation itself and interacting with each other. The reconnection is done through applying a different way of communication than it was used before. (DiStefano & Maznevski, 2000, p. 53)

Integrating is the final step where understanding the differences (from mapping) and communicating (from bridging) need to be transformed into efficient results. The proposed methods in doing so are: managing participation, resolving disagreements and building on ideas. (DiStefano & Maznevski, 2000, p. 54)

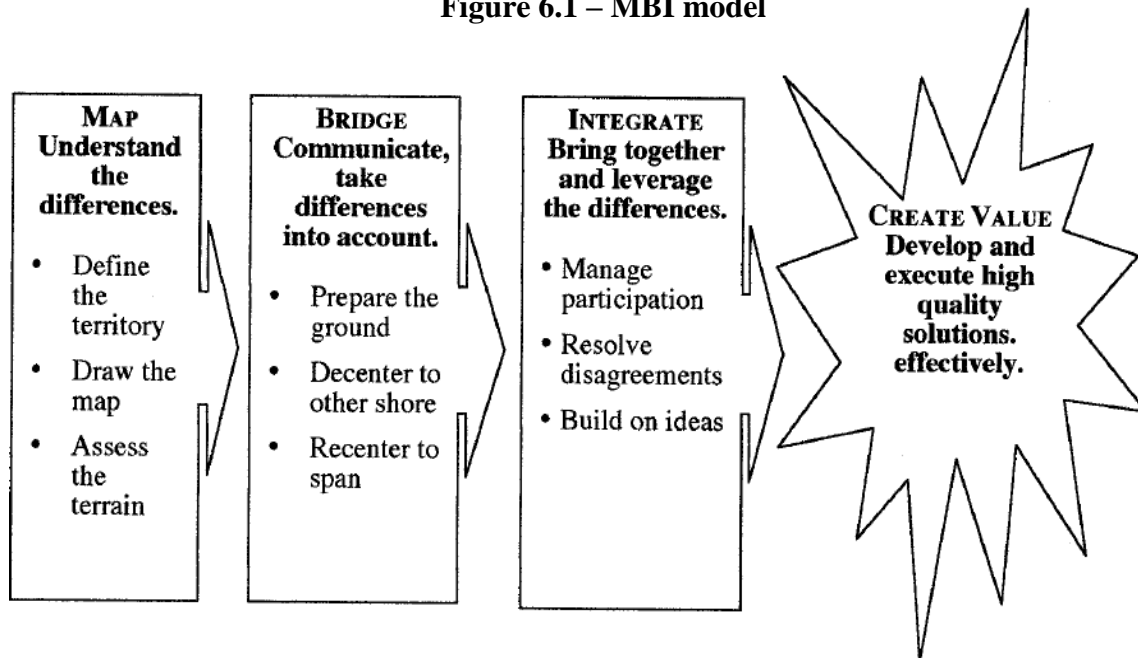
*Managing participation* requires that each team member to participate in discussions in order to offer ideas upon which can be build great performances. Since good ideas can't be obtained without people's participation, it is mandatory that every team member offers his/her opinion. (Ibid)

*Resolving disagreements*, which appear as a result of presenting ideas, are necessary if it is one's intention to use that idea or to develop better ones. (DiStefano & Maznevski, 2000, p. 56)

*Building on ideas* can be done by selecting one idea and consider it the starting point for brainstorming. In the end of the process it should not be possible to remember who launched which idea. (DiStefano & Maznevski, 2000, pp. 57-58)

For a better understanding of the above described steps, see the figure below:

**Figure 6.1 – MBI model**



Source: DiStefano & Maznevski, 2000, p. 49

As can be observed, the MBI is a complex tool to create or improve a good communication and collaboration between team members. By referring to the case studies none of these measures were presented there.

No wonder that Danish managers from Aalborg Industries Vietnam's case could not understand the Vietnamese attitudes and working style. The first manager stated: *"I don't know what it is... This is something really Vietnamese or Asian, but it happens very often...I have the feeling that they are trying to run away from problems."* (Aalborg Industries Vietnam case study, p. 14) On the other side, the Vietnamese managers could not understand Danish behaviors either. One of them affirmed: *"...The first shock was a culture shock. The way of working, the way of speaking, and the way they treated us, were a little different. Maybe they think it is normal, but for us the Vietnamese, that kind of language is only spoken among the motorbike chauffeurs or the fish sellers at the market, not in an office... That was the shock in the beginning... It happens again and again... And we are now used*



*to that, we just don't need to listen...*" (Ibid) Consequently, due to the fact that they did not mapped and understood their differences, the bridging was not created and resulted in conflicts and resistance from the Vietnamese employees' side. (Aalborg Industries Vietnam case study, pp. 11 and 9-10)

Similarly, in Wavin Baltic's case Danish managers felt that Lithuanian employees seek to run away from responsibilities. One of them declared: *"In Lithuania employees often try to find the first excuse not to continue working... They appear to reason this way: how can I find the first problem so that I can stop."* (Wavin Baltic case study, p. 11) On the opposite side, one Lithuanian manager has accused Danish teaching methods, as it follows: *"We were used to the soviet times, when everyone shared his knowledge from the bottom of his heart. However, they showed us not more than needed. None of the teachers opened his heart to us."* (Wavin Baltic case study, p. 12) In regard to Danish attitudes, another Lithuanian manager affirmed: *"I remember, I asked the President of Lithuania to participate in the opening ceremony of the factory. ... (He) was 5 or 10 minutes late... The President of Wavin BV started showing dissatisfaction that the Lithuanian president was late. "What kind of attitude do you have here? What kind of country is this, where we have to wait that long for the president and can't start the opening ceremony?" he retorted: I find such type of behavior highly arrogant"*. (Ibid)

Hence, instead of understanding their differences and making usage of them in a constructive way, the involved parties from the both case studies just judged each other. Danish manager accused the Lithuanian employees for turning their back to responsibilities; while Lithuanian manager accused Danish managers for have an arrogant attitude. This, of course, led to animosities between both parties which, as revealed in the case study, burden the process of integration. (Wavin Baltic case study, pp. 8-13)

Moreover, the second Danish manager from the Aalborg Industries Vietnam case stated that: *"They (Vietnamese) are really... they are a state-owned company. And Ms. Pham (a manager from the joint venture partner company: Vinashin) was trained in Moscow, and we can feel that – she seems (to behave as a manager from) an old system of planned economy ... In their office, it is quite clear when I go there."* He further said that such a culture is *"not flexible in the modern world"* and *"must be changed"*. (Aalborg Industries Vietnam case study, pp. 18)

From the above statement can be understood that Danish manager feels that his ways and culture is better than the one of the Vietnamese; therefore, their culture needs to be changed. This situation fits the following statement of DiStefano & Maznevski (2000) mentioned in their article: “*We have a nearly universal tendency to react instinctively to differences as bad. “They” are different from “us.” “We” are right and good; therefore “they” are wrong and bad.*” (p. 52)

A similar situation appears in Wavin Baltic’s case, when one of the Danish managers made the following affirmations in regard to Lithuanian’s lack of initiative and decision-making skills. He declared: “*They [the Lithuanian managers] say yes to everything. I would like to have more resistance. I hope I’ll get it. .... They also have problems concerning making decisions themselves because I am involved in very small details .... I should not at all be involved. But I feel that the problem here is that people are afraid to make decisions to even buy minor things, which they need.*” (Wavin Baltic case study, p. 10)

It can be observed again that this assertion expresses presumptions “*that Lithuanians are afraid to make decisions*” and a lack of understanding of their obeying attitude as they were saying “*yes to everything*”. Again the differences are judged and not understood in the way that could contribute in building a better communication and relationship between Danish managers and Lithuanian employees. (Ibid)

To conclude, the above findings indicate that MBI model was not used by the people involved in the integration process. However, if it would have been used by Danish managers from the two case studies, it could have led to the avoidance of conflicts which arouse between them and the employees from both: Lithuania and Vietnam. Also it could have helped them to understand each other’s differences and use them to create the desired value in an effective way.

### **3. The presentation and interpretation of Hofstede’s national cultural dimensions**

In the case studies the references towards cultural differences appear to be made from a national stand point: “*Lithuanians are afraid to make decisions*” (Wavin Baltic case study, p. 10), or “*Vietnamese are trying to run away from problems*” (Aalborg Industries Vietnam case study, p. 14), or Danes have an arrogant attitude (Wavin Baltic case study, p. 12; Aalborg Industries Vietnam case study, p. 15). Due to this fact, the author believes that it is appropriate to use Hofstede’s national cultural dimensions. The aim is to see if there is

consistency between Hofstede's findings about Danish behavior and the behavior of Danish managers discovered in the two case studies.

The first dimension is power distance which refers to "*the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally*" (Hofstede's website, 2015)

For Denmark this dimension registered a low score which means that in a position of power a Dane would offer autonomy to subordinates and would treat them as equals. It is said that Danes don't lead, but they coach. Also, "*power is decentralized and managers count on the experience of their team members*". The environment in a workplace in Denmark is described by Hofstede as informal; a place where employees use the first name in order to address each other and they also expect to be consulted in the business matters. (Hofstede's website, 2015)

If it is to compare the above description with the behavior of Danish managers from the case studies, it can be clearly seen that they are contradicting. The case studies revealed an imposing behavior of Danish managers where power was distributed in a hierarchical way and the opinions of the subordinates were not so valued. One example that reinforces this statement can be found in Aalborg Industries case, where a Vietnamese manager expressed his viewpoint about Danish managers' attitudes towards them. He said: "*The decisions are basically imposed on us. Indeed, as we started, we had our own routines and thought we were right. But gradually, as our opinions became ignored over time, we started to make fewer suggestions and then stopped making any suggestions at all, i.e. we did as they told us to do. It was like giving them an inch and they would take a mile.*" (Aalborg Industries Vietnam case study, p. 13)

Another example found in the same case study refers to the way Danish manager was seeing the roles of the Vietnamese middle managers who were his teammates. He declared: "*All of them (the Vietnamese middle managers) they are the links to the blue-collar workers. We are here to produce boilers, and they are produced by blue-collar workers. So we really need the link between me, who only speaks English, and the blue-collar workers, who only speak Vietnamese. So the white-collar workers, i.e. Vietnamese nationals spending [interacting] with the Western culture speaking English, are a link. They don't know how Aalborg Industries operates; they don't know how to produce boilers, etc. They are the link*"

*between the people who know Aalborg Industries, who know the customs, who know what we should do and the people who actually do it.” (Aalborg Industries Vietnam case study, p. 13) According to this affirmation, it seems that this Danish manager did not “counted on the experience of his team members” (Hofstede’s website), but only on the opinions and experiences of “people who know Aalborg Industries, who know the customs, who know what we should do”. (Ibid)*

In Wavin Baltic’s case, a Danish manager himself admitted that he putted pressure on the Lithuanian employees to conform to his requirements and force them to make decisions themselves. He stated: *“So what I do is that when I give the task to a guy I go to or call the next day and ask: ‘what have you done about the things we talked about yesterday?’ And he would usually say: ‘I had to stop, because the data is not correct.’ Of course it takes a lot of time to force him to work continuously. But later he realizes: ‘I cannot find any more excuses for not reaching the goal. So why have this Danish guy sitting on my neck all the day. I better do something myself.”* (Wavin Baltic case study, p. 11)

From this quotation it can be noticed again the contradiction between Hofstede’s description about Danish behavior and the facts revealed in the case study. The conclusion that can be drawn from this statement is that the working environment from the Lithuanian factory was not an informal one with an egalitarian type of relationship, but rather a hierarchical one.

Individualism represents *“the degree of interdependence a society maintains among its members”*. (Hofstede’s website, 2015)

In this dimension Denmark registered a high score, which means that Danish society is an individualistic one. This translates through the fact that Danes expect that people look for their well-being and for that of their immediate families. (Ibid)

Hofstede’s finding in relation to this dimension could explain why Danish managers from Wavin Baltic case study were so set on pushing the Lithuanians to start making decisions by themselves. One of them mentioned: *“I would like to have more resistance. I hope I’ll get it”*. Another one also declared: *“Employees are less encouraged in the Lithuanian culture to make decisions than in the culture from where I come. And that is why I am here - to help my Lithuanian colleagues make the (necessary) decisions”*. (Wavin Baltic case study, p. 10)

Hence, Danish managers' expectations in regard to decision-making were embedded in their national culture. In their opinions, people capable of making decisions are the ones able to take care of themselves.

Masculinity refers to “*what motivates people: wanting to be the best (Masculine) or liking what you do (Feminine)*”.

The results revealed that Denmark is a feminine society, which means that people put emphasis on having a balance between life/work. Managers try to offer the employees a place of work where value equality among people, solidarity and consensus are promoted. Also, in conflicts situations, they will be solved through compromises and negotiation, as it is known about Danes that have long conversations and discussions until they reach a common ground. (Hofstede's website, 2015)

This dimension applies the best in Aalborg Industries Vietnam case. The compromise situation emerges from the declaration of the second Danish manager in regard to the board meetings that he was having with the representatives from Vinashin (the partner company).

As he confessed, sometimes he offered these Vinashin representatives information which in Denmark would have never been offered: “*Vinashin expects rights to control*”, he said, “*– how many stamps we are using, how many people are sitting there and what they are doing and such things. They want to go down and control invoices, purchases, why did he (this guy) get the job, but not him (that guy), and such things...This is not for the board in our culture. But we know in the Vietnamese culture it is really what they are discussing. So the board meetings sometimes are such things. Sometimes we give the information to the board that we would never agree to do (in Denmark)...*” (Aalborg Industries Vietnam case study, p. 10)

Uncertainty avoidance is the fourth dimension and refers to: “*The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these*”.

In Denmark's case resulted a low score, which means that Danes are pretty flexible in their workplace and do not need too many structures and predictability, as they are comfortable with plans being changed overnight. Also, they have no problem in dealing with ambiguous

situations and are open in telling you if you are in doubt or do not know something. Form them, it is ok to say “I do not know”. (Hofstede’s website, 2015)

Apparently this dimension did not find applicability in any of the two case studies, as they do not reveal any situation in which Danish managers have to deal with uncertainty about the future in general, or the future of the company. On the contrary, it seems that Danes were the only ones who knew the direction of the new formed organization.

Long term orientation “*describes how every society has to maintain some links with its own past while dealing with the challenges of the present and the future*”.

Denmark registered, again, a low score for this dimension and it means that it is a normative society. In other words, people from this type of societies show respect for traditions, have a way of thinking embedded in norms, present little interest in saving the future and are focused on achieving quick results. (Hofstede’s website, 2015)

Two of the described features of this dimension appear in the case studies. The one which refers to normative thinking is best illustrated in Aalborg Industries Vietnam case, where it is specified that both: first and second manager had to follow the plans and norms received from Aalborg Industries headquarters. In regard to first manager’s mission it is mentioned that he had “*to ensure that the joint venture was put into operation according to plan, to secure all quality and work procedures in accordance with Danish standards, and to coordinate the knowledge transfer process*”. The second manager, also, received “*a long-to-do list*” of which priority was to “*get a good connection with Vinashin*”. (Aalborg Industries case study, p. 8 and 17)

Similarly, in Wavin Baltic’s case were made references to the plans that Danish expatriates have to follow, when integrate the Lithuanian company. As stated in the case study, the mission was “*to build the new joint venture up to the level of other companies within the Wavin family. This entailed building strong leadership and managerial competences within the company to ensure that what was done is in accordance with the Wavin’s rules and regulations*”. (Wavin Baltic case study, p. 8)

The second feature of long term orientation dimension, which is presented in the case studies, refers to Danes focus on obtaining quick results. In Aalborg Industries Vietnam’s case, this fact exhibits from the second Danish manager’s declaration who was talking about the first manager and what he managed to achieve in a short period of time, i.e three years

since the joint venture was signed. The second manager said about the first manager: “...*he succeeded in building this factory in three years... Definitely, I couldn’t have done it so quickly... But... when you do it so quickly, then you’re not thinking about the people, further about relationships or such things*”. (Aalborg Industries case study, p. 15)

Hence, it can be observed that another national trait put its fingerprint on Danish managers’ actions. The fact that they have an inclination in following norms and regulations, as well as being focus on achieving quick results had an impact on the actions performed during the integration of the companies from both: Lithuania and Vietnam. This can also explain why the absorption approach to integration was chosen.

Indulgence is defined as “*the extent to which people try to control their desires and impulses*”.

The results of Hofstede show about Denmark that is an indulgent country, meaning that people have a positive attitude and are optimistic. (Hofstede’s website, 2015)

The author of this project did not find any example in which this dimension would be embedded.

To conclude, the above discussion about Hofstede’s cultural dimensions and their applicability, in the situations described in the case studies, indicated contradicting results. Some dimensions as: masculinity/felinity, indulgence and long term orientation explained certain behaviors of Danish managers from case studies, while for the power distance contradicting discoveries were found. Also, the author could not find any relevant example which could have justified some actions of Danish expatriates through the dimensions of indulgence and uncertainty avoidance.

The discrepancy between the description of power distance and the actions of Danish managers, in the context of case studies, can be explained by the fact that they offered more attention to the regulations and norms which needed to be followed. It can be affirmed, therefore, that the long term orientation dimension kicked in a more accentuated way, fact that explains the choice for absorption approach of integration.

Another explanation could be that, they saw the creation of the new organizational culture from a structural point of view and people were disregarded.

It also can be stated that, the imposing attitudes and incapability of developing a good communication and relationships with the employees of the Lithuanian and Vietnamese

companies can owe to the fact that, in either case, Danish managers seemed not to have been properly trained to deal with a different culture.

In Aalborg Industries Vietnam case, the first manager had been working in 50 different countries, Vietnam representing country number 51. However, in that mission he was alone and he described this situation as follows: “*...If you are alone and you need to make the local people work for you, then you see the situation very differently. So, this is the first time I am on my own in a country responsible for building a factory*”. (Aalborg Industries case study, p. 8) It can be understood from his affirmation that he did not receive a training course in inter-cultural relationships, but rather it was sent to Vietnam due to his multicultural background.

Similarly, the replacement of the first manager, in this case study, said that it was for the first time when he was working “*with the Asian culture*”. He also had a rich multicultural background, but he described his past experiences as “*working in the culture, not with the culture*”. (Aalborg Industries case study, p. 15) Hence, it can be seen, again, that Vietnamese culture was representing a new challenges for him, as he was not familiar with it.

In Wavin Baltic is presented the same situation. Danish expatriates have some international experience, but did not attend any specialized training in intercultural management, before going to Lithuania. One of them stated: “*You cannot learn flexibility from training courses. ...I know exactly how to behave when I am in Moscow, and I know exactly how to behave when I am in Bombay..... Knowledge is transferred in a social interaction; it is a part of the daily life and a part of the daily management*”. (Wavin Baltic case study, p. 8) Although, this manager seems to know how to deal with a different culture, this fact did not prevent him from facing difficulties in communicating with Lithuanians and dealing with their decrease of commitment. (Wavin Baltic case study, p. 7 and 11)

#### **4. Conclusions and recommendations**

As it was stated on multiple occasions, one of this master thesis aims was to find out what is the current level of knowledge in terms of challenges and solutions of post-integration process, especially in the acquisitions post-acquisition process. Then, it wanted to identify if these challenges and solutions differ from industry to industry or present generalizable features. The next step consisted of determining the degree of consistency between these



findings. In doing so, 11 conceptual articles, 11 empirical studies and 3 consultancy reports were submitted to discussion and analysis.

After these three types of literatures were interpreted, it was discovered that most common problems are those related to: poor integration planning, national and organizational cultural differences, HR (training, downsizing/turnover, retaining or motivating the employees), lack/poor communication, and level of integration (autonomy or absorption) and lack of clear leadership. As for the solutions, they were referring to: making usage of communication, developing strategies for employee retention, benefits and compensation, offer training to the acquired firms' employees, create mixed integration teams and contradicting view upon speed of integration (fast vs. slow).

As for the identification of challenges and solutions industry dependency, it was discovered that they are generalizable and not industry dependent. This means that, no matter the industry of the companies which enter into an acquisition process, they all can face the above mentioned issues. Similarly, the solutions are applicable for all kind of industries.

In regard to the consistency identification between the challenges and solutions presented in the three types of literatures, the results indicated a high degree of similarity between challenges of all studies (with 6 out of 8) and a 100% consistency for those between empirical and consultancy reports. The solutions presented a low degree of similarity, with only 2 out of 8 for all articles. However, a higher consistency (with 5 out of 8 solutions) was noticed between the empirical and consultancy studies. (Birkinshaw et al., 2000; Schuler & Jackson, 2001; Larsson & Lubatkin, 2001; Ranft & Lord, 2002; Vaara, 2003; Risberg, 2003; Hitt et al, 2004; Epstein, 2004; Abhirup Chakrabarti & Will Mitchell, 2005; Quah & Young, 2005; Mitleton-Kelly, 2006; Schoenberg et al., 2007; Rashmi Haritwal & Ved Prakash, 2007; Meyer, 2008; Kummer, 2009; Abhijit & Hajro, 2009; Sarala, 2010; Vancea, 2011; Savovic, 2012; Teerikangas et al, 2012; Garibaldi de Hilal, 2013; Caiazza & Volpe, 2015; Consultancy reports)

Another purpose of this project it was to see if approaches to integration of managers from a particular country are in accordance with the current knowledge in the field. For fulfilling this aim, two case studies about two Danish companies were submitted to analysis. The results indicated that most of the solutions implemented by these managers were also noted in theoretical, empirical and consultancy reports. However, a difference was observed in

regard to level of integration, as the Danish managers opted for absorption. Hence, an interpretation for this choice was tried to be identified. The outcome showed that the dimension “long term orientation” of Hofstede had a tremendous impact upon this choice and their actions and behaviors.

Moreover, the author noticed that if MBI model (which stands for: mapping, bridging and integration) would have been used, the communication and interactions between Danish managers and Lithuanian and Vietnamese employees would have been of a better quality.

With all the above considered, the author finds that most important issue is the one related to communication, because its lack leads to the loss of key employees, decrease of their commitment, absenteeism, resistance to change and creates aversions among employees. All these, if not taken into consideration, will, ultimately, impact the outcome of the acquisition. Based on all these findings, the author **proposes** for companies, which enter into an acquisition process, to prepare the integration plan as soon as possible, to create mixed integration team (as this measure gives the employees from acquired firm the feeling of importance and integration), to use intensive communication which will help in solving the HR issues and, last but not least, to be flexible in the way to evaluate constantly the integration plan and employees’ efforts and make the necessary adjustments. Also, for cross-border acquisitions it would be a good idea to use the MBI model as a tool in easing facilitating the communication process and creating valuable relations between team members.

## Limitations

As any other study, this one also presents some limitations. They refer to:

- The relatively low number of empirical articles
- The low number of consultancy reports
- Some of the empirical and conceptual studies were not having as primary objective the discussion of the challenges and solutions from the post-acquisition integration process. Therefore, they present very few issues in a briefing way and the solutions are not mentioned at all.
- For the period 2006-2010 only two theoretical articles were found. Since articles were grouped in accordance to a 5 years' time span, the lack of multiple articles for this period of time has influenced the results of solutions identification
- Similarly, the empirical articles were missing for the period 2011-2015.
- The lack of solutions' presence from some articles, also contributed to a certain degree disruption of the overall outcome.
- Having more examples of case studies about Danish companies would have been more insightful

However, the author considers that, even with the above mentioned limitations, this project provided valuable insights of the current level of knowledge in the field of post-acquisition integration.

## References:

### Articles:

1. Abhijit M. and Hajro A. - *Integration in cross-border mergers and acquisitions*, 2009
2. Birkinshaw J., Bresman H., Hakanson, L - *Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation*, 2000
3. Caiazza Rosa, Volpe Tiziana - *M&A process: a literature review and research agenda*, 2015
4. Chakrabarti Abhirup and Mitchell Will - *A corporate level perspective on acquisitions and integration*, 2005
5. DiStefano Joseph J. and Maznevski Martha L. - *Creating Value with Diverse Teams in Global Management*, Organizational Dynamics, Vol. 29, No. 1, pp. 45–63, 2000
6. Epstein Marc J. - *The drivers of success in post-merger integration*, 2004
7. Garibaldi de Hilal Adriana - *Literature review to develop a study on how the human factor can influence the success or failure of mergers & acquisitions*, 2013
8. Hitt Michael, Shimizu Katsuhiko, Vaidyanath Deepa, Pisano Vincenzo - *Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future*, 2004
9. Kummer C. - *Mergers and Acquisitions: Issues and Perspectives from the Asia-Pacific Region. Chapter 10 - Overcoming the challenges and issues of post-merger integration: Putting PMI in the driver's seat in the M&A process*, 2009
10. Larsson R. and Lubatkin M. - *Achieving acculturation in mergers and acquisition: An internal case survey*, 2001
11. Meyer Christine Benedichte - *Value Leakages in mergers and acquisitions: Why they occur and how they can be addressed*, 2008
12. Mitleton-Kelly E - *Co-evolutionary integration: The co-creation of a new organizational form following a merger and acquisition*, 2006
13. Quah Penelope and Young Stephen - *Post-acquisition management: A phases approach for cross-border M&As*, 2005
14. Ranft Annette L. and Lord Michael D. - *Acquiring new technologies and capabilities: A Grounded Model of Acquisition Implementation*, 2002

15. Rashmi Haritwal and Ved Prakash - *Post-M&A knowledge integration challenges, solutions and learnings*, 2007
16. Risberg Anette - *The merger and acquisition Process*, 2003
17. Sarala Riikka M. - *The impact of cultural differences and acculturation factors on post-acquisition conflict*, 2010
18. Savovic Sladjana - *The importance of post - acquisition integration for value creation and success of mergers and acquisitions*, 2012
19. Schuler R. and Jackson S - *HR issues and activities in mergers and acquisition*, 2001
20. Schoenberg R., Figueira C., Nellis J. and. - *Travel abroad or stay at home? Investigating the patterns of bank industry M&As in the EU*, 2007
21. Teerikangas S. - *Dynamics of Acquired Firm Pre-Acquisition Employee Reactions*, Journal of Management Vol. 38 No. 2, March 2012
22. Teerikangas Satu, Faulkner David, Joseph Richard J. - *The handbook of mergers and acquisitions; Post-deal integration*, 2012
23. Vaara Eero - *Post-acquisition integration as sense making: Glimpses of ambiguity, confusion, hypocrisy, and politicization*, 2003
24. Vancea Mariana - *Challenges and stakes of the post-acquisition integration process*, 2011

#### **Books:**

1. Harrington Austin – *Modern social theory: An introduction*, 2005
2. Kuada John – *Research methodology. A project guide for university students*, 2012

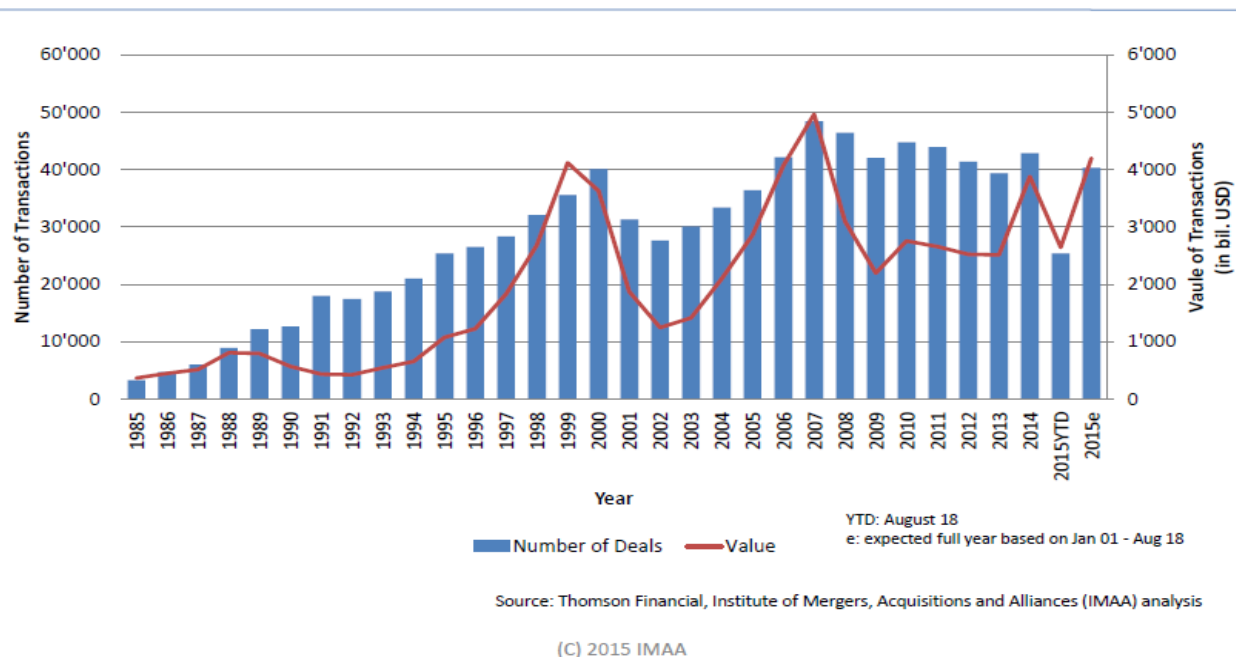
#### **Websites:**

1. <http://www.businessrevieweurope.eu/finance/390/Why-do-up-to-90-of-Mergers-and-Acquisitions-Fail>
2. Cognizant's overview - <http://www.cognizant.com/company-overview>
3. Cognizant's report - <http://www.cognizant.com/InsightsCasestudies/Mergers%20and%20Acquisition.pdf>
4. Deloitte's overview - <http://www2.deloitte.com/us/en/pages/about-deloitte/articles/about-deloitte.html>

5. Deloitte's report - [ww2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acquisitions/us-ma-integration-report-030415.PDF](http://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acquisitions/us-ma-integration-report-030415.PDF)
6. <http://www.education.com/reference/article/sociocultural-theory/>
7. Hofstede's website - <http://geert-hofstede.com/denmark.html>
8. [http://www.imaa-institute.org/statistics-mergers-acquisitions.html#MergersAcquisitions\\_Worldwide](http://www.imaa-institute.org/statistics-mergers-acquisitions.html#MergersAcquisitions_Worldwide)
9. <http://info.kpmg.us/ma-survey/index.html>
10. TGCP's overview - <http://www.tgcpinc.com/Solutions/Our-Approach-to-Leadership-and-Business-Strategy/65/>
11. TGCP's report - <http://www.tgcpinc.com/Thought-Leadership/Thought-Leadership-Library/51/>
12. Wavin Group's history - <http://www.wavin.com/web/about/organisation/history.htm>
13. Wavin's Group Annual report, 2014 - <http://www.wavin.com/web/sustainability/reporting.htm>
14. Vinashin's history - <http://vinashin.com.vn/Brief/Brief-History.html?p=147>

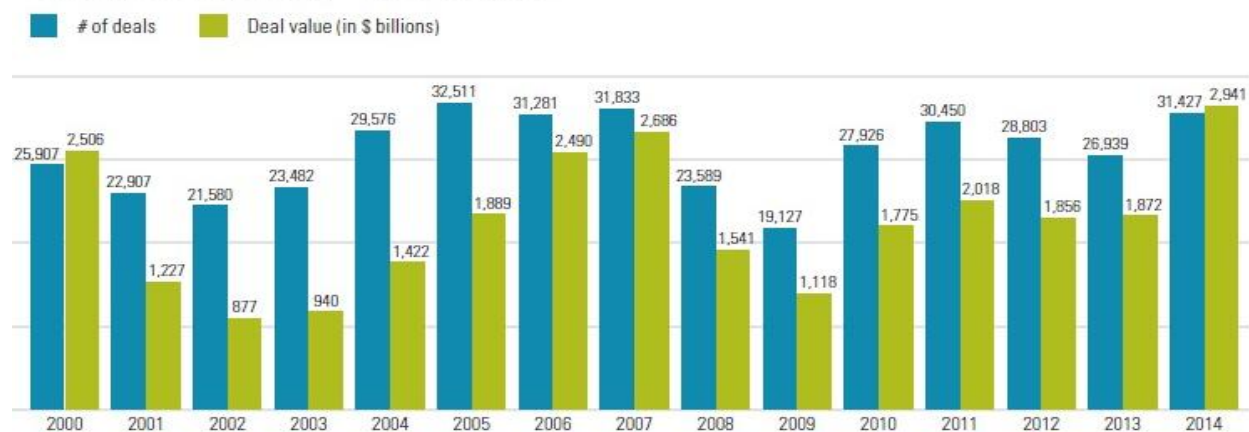
## Annex 1

### Announced Mergers & Acquisitions: Worldwide, 1985-2015e



Source: [http://www.imaa-institute.org/statistics-mergers-acquisitions.html#MergersAcquisitions\\_Worldwide](http://www.imaa-institute.org/statistics-mergers-acquisitions.html#MergersAcquisitions_Worldwide)

### Global M&A Activity – 2000 to 2014



Source: FactSet Mergers

Source: WilmerHale's M&A report, 2015

**Aalborg University**  
**MSc. International Business Economics**  
**Spring Semester, 2014**  
**Module 3a Examination Case**





## INTEGRATION OF WAVIN BALTIC UAB INTO THE WAVIN FAMILY<sup>1</sup>



---

**Wavin Baltic** celebrated the 10<sup>th</sup> anniversary of its establishment in April 2006 and said good bye to the last of the Danish expatriates who have facilitated the integration of the company into the Wavin group of companies. Looking back, the Lithuanian managers described the ten year period with mixed feelings. The beginning of Wavin Baltic was characterized by many uncertainties and mutual suspicions, new demands from the Danish expatriates, acquisition of new work habits and adjustments to new organizational culture. But with the departure of the last Danish manager, the integration can be said to be successful and with rich lessons for both Danish and Lithuania managers.

---

<sup>1</sup> This case was written in 2008 for the Centre for International Business, Aalborg University, Denmark by Arunas Bagdonas and Modestas Gelbuda under the supervision of John Kuada. It is intended for class discussion in Inter-cultural Human Resource Management and does not make any judgment on good or bad management practices of the company in question.



The name **Wavin** is a contraction of two words: **W**ater and **VIN**yl chloride. WAVIN was established for more than 50 years ago with the mission to solve the problem of corroding pipelines in the Dutch province of Overijssel and thereby ensure the supply of safe drinking water to the inhabitants of the province.

**Picture:**

The first Wavin factory in Zwolle, The Netherlands

In 1953, Mr. J.C. Keller, director of the water board of Overijssel at that time experimented with making PVC pipes to ensure a cleaner and affordable water supply. After numerous experiments, he produced the world's first large-diameter PVC pressure-pipe. A small workshop in the Dutch town of Zwolle was quickly turned into a pipe factory to serve the Overijssel Water Board (WMO) and other clients. Its core business later extended to embrace the development, manufacture and distribution of quality plastic pipe systems mainly for building, sewer and the utilities sectors. It targeted two major market segments:

1. **Building and Installation**, which included systems for tap water, surface heating and cooling, soil and waste applications, as well as rainwater and electricity.
2. **Civil and Infrastructure** which included pipe systems for water supply, sewers, drainage, storm water management and irrigation as well as cable solutions for telecommunication, signaling and electricity distribution networks.

Today Wavin N.V. is Europe's leading supplier of plastic pipe systems and recycler of plastic products with revenues totaling EUR 1.5 billion in 2006 and employing 6,700 people. It operates in 27 European countries and owns 16 manufacturing plants and a wide network of over 120 agents and licensed partners who are active in Asia, Australia, Africa, Latin America, the Middle East and North America. Its headquarters is located in Zwolle, in the Netherlands.

### **Wavin vision**

***“Wavin’s goal is to be the leading European supplier of plastic pipe systems and solutions, unrivalled in geographic presence, service, innovation, and product range.”***

**In “Wavin Company Presentation”, February 2007**

**Nordisk Wavin** is the Scandinavian wing of the of the Wavin group. Its headquarters is in Denmark and its geographical market area covers the Scandinavian and Eastern European region as well as the Baltic countries. Its operations in Lithuania constitute the focus of this case. From now on, the Nordisk Wavin will be referred to as a Danish company or the Danish JV partner.

Wavin Baltic UAB



Wavin Baltic was established on April 5, 1996 as a joint-venture with five shareholders: (1) Nordisk Wavin

(Netherlands, the Holding company of the Wavin group), (3) the Danish Investment Fund (IØ), (4) Vilnius Polymer Goods Factory – a

Lithuanian State company, and (5) the company employees.<sup>2</sup> Total investment into the JV was 8.5 million Litas (approximately 2.125 million US Dollars). Prior to the

Joint Venture agreement, the Lithuanian Company was under the control of the Ministry of Housing and Construction. In 2002 Wavin Baltic ceased being a joint-venture after the Danish Investment Fund (IØ) and the Government of Lithuania sold their stock to Wavin Group.

Mr. Virginijus Ramanauskas, the current Managing Director of Wavin Baltic sees the change in ownership composition as a positive event. His views are captured in the following statements:

“The following things are important for Wavin: to develop market, to grow and expand, as well as improve our products and technology. However, when I look back at the board meetings of 1997/1999, at that time every shareholder had his own interests, which would often contradict those of Wavin. For instance, all that the Danish Investment Fund wanted was return on their investments, as they had short-term financial goals. When the three parties used to meet at the board meetings, every party had its own priorities. The State Property Fund of Lithuania only cared if the documents were in order and if they had been properly signed. Wavin Baltic needed more capital for expansion and purchasing of new equipment, thus Wavin wanted to borrow money from banks, while other parties were against the borrowing.”

Now that the Wavin Group has full ownership of the company investment decisions have become a lot easier to make.

### **Background of Vilnius Polymeric Goods Factory (VPGF)**

As noted above, the physical and organizational foundation of Wavin Baltic comes from the former state-owned Vilnius Polymeric Goods Factory (VPGF) which was established in 1960 to produce such polymeric products as floor coverings, profiled finishing products, molded parts for ventilation and electrical installation, washable wallpaper, sealants, as well as several kinds of glue. In 1976 the company introduced a new type of linoleum with thermal and sound insulation layer into the Lithuanian market. Its products were popular in many Republics of the USSR. During the soviet era the Central Planning Committee used to issue strict orders on how many items each company must produce. One or a few plants would often produce spare parts or materials for the whole Soviet economy. During this period Vilnius Polymeric Goods Factory produced more than 2,000,000 square meters of linoleum annually without payment and its workforce consisted of approximately 400 employees.

<sup>2</sup> The Nordisk Wavin, the Wavin Group and the Danish Investment Fund together held 68% of the shares, the Lithuanian state held 24% and company employees held 8%.

After the collapse of the Soviet Union, the company was short of funds and was therefore happy when Nordisk Wavin showed interest in collaborating with it.

The joint venture negotiations took 16 months and were constrained partly by the lack of international experience as well as language and negotiation skills by the Lithuanian officials who were on the negotiation team. In April of 1996 the new company Wavin Baltic UAB was incorporated.

Mr. Kalriis who led the Nordisk Wavin's team of negotiators commented on the outcome of the negotiations as follows:

"We obtained what we wanted. The articles of the association and overall functioning of the company is very close to the standards of other Wavin companies."

The first Lithuanian Managing Director of Wavin Baltic Mr. Aloyzas Daublys who was on the Lithuanian negotiation team had this to say about the results of the negotiations:

"I never had any business dealings with the Westerners before. Now, I understand that those shareholders were fictitious. The shareholders (the Danish Investment Fund and the Dutch company from Zwolle) served as a buffer, so that the Wavin Group would not have to buy out the rest of the shares, because according to the then law, if a single shareholder had 51% of the stock in his possession, he had an obligation to buy out the rest of the shares from other shareholders. Of course, together they had the controlling stock in their possession, so they did what they pleased. All gangsters of Lithuania and the rest of the world are good at such tricks. They had endless possibilities to manipulate finances. Because inputs were imported from Denmark, they could fix prices. It's only a matter of technique".

Lithuanian company brought the following assets into the joint venture: plant buildings, installed communication and utility lines (electricity, water etc.), 3.6 hectares of land, and labour. According to the joint venture agreement, Nordisk Wavin was to provide financial resources, manufacturing technology, product know-how, patents, business expertise, technical training, and management development expertise. In the views of the Nordisk Wavin's negotiation team, the Lithuanian company possessed negligible general marketing knowledge, low quality management and its contacts with the host government were only of average assistance to Wavin. Its major contribution was its substantial knowledge of the Lithuanian business environment and the country in general.

### **Motives, Products and Markets**

In the early 1990s, environmental concerns were increasingly gaining momentum in the whole world and Baltic States were no exception. When Baltic countries were part of the Former Soviet Union (FSU), environmental pollution and damages by the Soviet army and large-scale industrial enterprises were seen as consequences of the Soviet aggression. Thus *green movement* in the Baltic countries was very much part of the overall movement towards independence. After the collapse of the Socialist Block, all the governments in the region declared environmental protection and promotion of environmental technologies as an important part of their agendas and priorities.

Based on the prior experience from Polish<sup>3</sup> and Czech markets, Nordisk Wavin managers knew that the Baltic States would have to meet high infrastructure and environmental

---

<sup>3</sup> Joint venture in Poland is a success story in the whole Wavin history.

protection requirements as well as make their own contribution to the protection of the Baltic Sea, if they were to join the European Union. Thus there would be a substantial demand for Wavin products in the Baltic countries.

There were already many different applications of the plastic pipes both in the industrial and the household market segment in Lithuania. This further convinced the management of the Danish partner that the Lithuanian market has bright prospects. A short description of the product range and possible applications is presented in box 2.

#### **Box 2: Product Applications**

1. Wavin pipes are used to deliver water to the taps from the water works.
2. Plastic pipes are also used for indoor sewerage.
3. Pipes for floor heating.
4. Pipes for the distribution of natural gas.
5. Pipes for land drainage (typically used by farmers and households).
6. Cable pipes (e.g. for the protection of telephone wires)

Prior to the establishment of Wavin Baltic, the Vilnius Polymeric Goods Factory (VPGF) sold the following products to the Baltic as well as the Central and Eastern European markets:

1. Cast iron pipes
2. Asbestos-cement pipes (for high pressure purposes)
3. Cement pipes (for sewerage)
4. Clay pipes (for sewerage and land drainage)

In comparison, Wavin pipes are more durable, flexible and environmentally more friendly than those produced by VPGF before the joint venture. Since the earlier pipes were made either of cast iron, asbestos, cement or clay they have been unable to prevent leakages and have been inflexible in shape.

Scientific investigations have shown that Wavin pipes have the following additional advantages:

1. They preserve drinking water from bacteriological as well as soil-based acid contamination.
2. They prevent acids transported through the pipes from leaking into the environment.
3. They ensure safer transportation of hazardous industrial wastes.

Apart from the immediate market needs that Wavin Baltic can serve, there were also prospects for the company's products to be used in proposed natural gas projects in the Nordic Region. It is commonly agreed that consumption, and particularly extraction of natural gas is much more environmentally friendly than production of gas from coal. Besides, natural gas quality and efficiency is much higher than gas from coal. Therefore, as Mr. Kalriis explained, it has been agreed among a number of countries to build a gas pipe network around the Baltic Sea from Norway through Finland, Baltic States, Poland and Germany to the Netherlands. For most of the countries in the region, this would be an alternative source of natural gas to that from Russian suppliers. This would have several positive effects. First, some of the Central European countries could stop using coal. Secondly, some major cities in the region would be able to improve their gas distribution systems and enjoy high quality natural gas.



## **Competition, Government Regulation and Environmental Issues**

When the Danish partner was scanning the Lithuanian business environment for potential joint venture partners, the management's attention was drawn to Plasta, a major former state owned company. However, this company had already been privatised and had an American owner who was not interested in strategic cooperation with Wavin. Plasta manufactures plastic pipes too and it is, therefore, the largest local competitor. In the Danish partner's assessment, the quality of plastic pipes produced by Plasta was very low and this gave the industry a bad image.

The low product quality was partly due to the fact that the company bought plastic garbage (i.e. used plastic bags from the supermarkets) in Germany at very low price as raw materials for the production of plastic pipes and other products. The limited financial resources of local buyers has made them very price sensitive and therefore willing to install low quality pipes even in new houses. This meant that it had been initially very difficult to sell Wavin's products, despite their high quality, durability and, most important of all, environmental friendliness.<sup>4</sup>

Another aspect of this problem was that Lithuanian State institutions were not particularly concerned with product quality within the industry. The quality standards had not been changed for about 30 years. Apart from the thickness of the pipes, no other quality specifications were made by the government authorities. When Mr. Kalriis went to Lithuanian Standardization Department with a request for clearer quality guidelines, government officials showed interest in his concerns. But they appeared to lack the knowledge and capacity to deal effectively with the problem.

## **The Lithuanian Business Culture in the Early 1990s**

The joint venture was formed at a time when management practices in Lithuania were greatly influenced by the planned economic model of the Soviet era. Major characteristics of management at that time included deference to and respect for authority. This meant that Lithuanian employees expected their managers to give them orders and tell them what to do. This naturally reduced employee motivation to take initiatives to solve problems that they faced in their specific work situations. They have to seek approval from their managers even for simple and obvious changes in their work processes. Decisions of managers usually took a long time to implement due to a general lack of trust and reluctance to accept responsibility among the employees. Communication difficulties were rampant due to language barrier, as the English skills of many of the employees were limited at that time.

Different aspects of management functions have not been modernised and were not consistent with the best practices in most Western economies. For example, the Lithuanian accounting system dated back to 1932 and has not been revised at the time the joint venture was established.

---

<sup>4</sup> Mr. Kalriis was extremely angry about Plasta's business practices and offered its American owner consulting assistance and training in Denmark for his managers and workers so that the company could produce higher quality products and would not continue to discredit the whole industry. However, the owner declined the offer.

Outsourcing of non-core services was also an unknown practice. It was usual for most soviet factories to have their own transport and maintenance departments. The transport department was used to bring raw materials and deliver goods to the distribution centres, which in their turn supplied retail shops and department stores with the products. The transport department also was in charge of bringing the company employees to work and back. Employees could borrow or rent company vehicles for private purposes – including conveying personal effects when moving from one house to another or bring guests to wedding and similar family events.

## **Managing the Joint-Venture**

### **The Objectives and Plans**

The first challenge faced by the management of Wavin Baltic was to build the new joint venture up to the level of other companies within the Wavin family. This entailed building strong leadership and managerial competences within the company to ensure that what was done is in accordance with the Wavin's rules and regulations. It was noted, in particular, that such management functions as procurement, coordination, and distribution of material resources had to be strengthened. Furthermore, the joint-venture must create an organisational environment that could promote individual contributions to the organization's work. This required the transfer of new technologies, knowledge, skills and capabilities and instilling Wavin's values and work ethics in the employees of the new joint-venture. Initially, the Danish parent company decided to take full control over the core processes and operations in Wavin Baltic. To do so effectively and quickly, a number of Danish managers were sent to Lithuania to facilitate the organizational and management development process.

Mr. Aloyzas Daublys (a Lithuanian) was made the first Managing Director of Wavin Baltic and Mr. Kalriis (from the Danish parent company) was made the vice-director. Both gentlemen were involved in the negotiation of the joint venture. Three other Danish expatriates were sent to Wavin Baltic at various points in time to manage specific departments and to train the Lithuanian employees. Mr. Erik Klemmsen was sent to train the Lithuanians in sales and marketing functions of the company while Mr. Fin Pedersen took care of training of the Lithuanian employees in the production department. From the very beginning Danish managers were guided in their knowledge transfer activities by the overall objective that sooner or later Wavin Baltic would be run by Lithuanians, just as their subsidiary in Poland was entirely managed by the Polish. This objective was fulfilled in 2006 with the departure of Mr. Klemmsen as the last Danish expatriate.

Before coming to Lithuania, Mr. Kalriis had already been involved in the establishment and management of 3 JV in other countries, 2 of them in the Central and Eastern Europe. The other Danish expatriates had similar international experiences from the Polish and Czech joint ventures.

Apart from their previous international experiences the Danish expatriates did not have any special training which would have helped them to work in foreign cultural environments. Mr. Kalriis said he had looked at the leaflets and guides on Lithuania and other Baltic States. But he did not find it necessary to take any comprehensive intercultural management training. He believed that to succeed as a manager in a foreign country, an expatriate must be flexible and learn through interactions with the local people. "You cannot learn flexibility from training courses", he observed, and continued, "I know exactly how to behave when I am in Moscow,

and I know exactly how to behave when I am in Bombay..... Knowledge is transferred in a social interaction; it is a part of the daily life and a part of the daily management”.

Mr. Kalriis saw his role as one of transferring the Nordisk Waving corporate culture and approaches to management to Wavin Baltic. To accomplish this objective, he reasoned that he must develop a balanced view of both positive and negative experiences that he would acquire in Lithuania. He encouraged the other Danish expatriates to do the same and not to be in a hurry to transfer Danish approaches to management to the Lithuanians. They must rather give the Lithuanians an opportunity to learn through the acquisition of their own experiences in the new environment. But this must be done without sacrificing the overall goals of the joint venture. This overall strategy proved subsequently to be easier thought out than done.

Mr. Erik Klemmsen had this to say about his early experiences in Lithuania:

“After a joint venture was established, for us it became very important that we teach our employees to be in the Wavin family. It’s exactly as I tell you: parents have their children, they raise them up, later children are married, and they have grand children and so on. But we are still one family and our culture is the same. Therefore, you can’t leave your children without any parents. It’s not good. In this case Danish parents gave birth to Lithuanian children. They are raising them up, teaching them to think and do things the way Danish Mother Company does...”

The Lithuanian employees’ experiences about their Danish counterparts were, however, mixed. Mr. Daubly experienced Mr. Kalriis as assertive and guarded as a person and believed that this had some influence on his management style. Although Mr. Kaliis was officially Mr. Daubly’s deputy, in reality he acted as the Managing Director. Mr. Daublys referred to him as “my commissar” - using the analogy of soviet times, when the first Secretaries of the communist party (“supreme rulers”) in soviet republics were locals, however, the second secretary of the communist party usually was sent from Moscow to supervise the first secretary. In Mr. Daublys’ view, Mr. Kalriis gave him orders rather than solicit his opinions on key decisions.

## **The Implementation**

Vilnius Polymeric Goods Factory had approximately 400 employees. This number was reduced immediately to 150 when the joint venture was established. An agreement was made with the government of Lithuania that the employees in the newly established Wavin Baltic would get salary not lower than the salary they received at Vilnius Polymeric Goods Factory and that the 150 employees would remain in Wavin Baltic for the period of two years. However at the beginning the company did not need so many employees. Initially, the excess number of employees was used for reconstruction projects within the company. But with time some of them retired, some of them were sacked due to poor work ethics, and some of them found new jobs. Consequently, the number of employees was reduced to 40. Mr. Daublys explained the reduction in this manner:

“We starved them naturally; nobody was fired against his or her will. For the first two years when reconstruction was in progress all the workers who used to work in production and other units that were under liquidation were used in construction and repair works. Every day we had less and less workers until we had as many as we needed. We brought in equipment started all production processes and the remaining employees were integrated into new production processes...”



As noted earlier, Eastern European companies were structured in a manner that ensured an in-house performance of all relevant value chain activities – productions, logistics, maintenance, sales etc. The new joint venture was therefore required to make decisions regarding which activities should be performed in-house and which ones should be outsourced. The attitude of the Danish managers was very clear and emphatic on this issue. Mr. Kalriis explained the management's position on the transport function in this way:

“We are not a transport company and we are not going to provide transport services. Somebody else has to make living out of that. Our task is to produce plastic pipes. When we need that support, we will buy it outside”.

Already within the first two months, Danish managers sold the company's vehicles to the drivers with generous conditions of payment. The maintenance department was also disposed of in a similar manner.

These decisions surprised the Lithuanian managers a lot. According to Mr. Daublys, the Lithuanians understood the need to focus on core business, but they did not expect that support units like maintenance and transport departments to be cleared so fast. In his view, the Danish managers went too far and did not consider the development of the country. He explained his viewpoint as follows:

“Outsourcing services is good. But the problem is that these services are not well developed in Lithuanian and it is not cheaper to acquire them from outside. They wanted to outsource even cleaning services instead of keeping (hiring) a cleaning person, however, there are no such service companies in Lithuania at that time”.

### **Improving the Work environment**

The Danish management team paid particular attention to improvement of general work environment in the new joint venture. The factory was completely renovated and was a lot cleaner than the old factory of VPGF. Modern toilets and wash rooms were built for the workers. Employees' salaries were 20% above the average salary in Lithuania. Besides, the employees were allowed to purchase all the equipment and tools they needed to perform their daily tasks. Some of the employees were given company mobile telephones and were allowed to take taxi when going to work in the cases of emergency. Additional incentives included the renting of sport facilities (in-door court) and swimming pools. Company also organized painting contests for the employees' children and the best paintings were sent to the Netherlands for the grand painting contest of the Wavin group.

At the beginning, the Danish managers were hesitant to extend the scope of employee fringe benefits to include facilities that Lithuanian employees in other companies did not have. But their attitude to the issue changed with time.

In order to develop new and dynamic management culture in Wavin Baltic, the Danish management insisted right from the beginning that all local top managers must show initiative and adopt “leadership-by-example” type of management – as Mr. Kalriis put it. His views on the issue were summed up in 1998 as follows:

“They [the Lithuanian managers] say yes to everything. I would like to have more resistance. I hope I'll get it. But I think it is also a question of having a good definition of their responsibilities. They don't know yet, what their responsibilities are exactly..... Right now, as I see it, there still may be

some confusion, where I feel that people do not really understand the new form of organization. They also have problems concerning making decisions themselves because I am involved in very small details .... I should not at all be involved. But I feel that the problem here is that people are afraid to make decisions to even buy minor things, which they need.”

Another Danish expatriate explained his understanding of the situation in this way in 1998:

“Employees are less encouraged in the Lithuanian culture to make decisions than in the culture from where I come. And that is why I am here - to help my Lithuanian colleagues make the (necessary) decisions,”

A third Danish manager made the following observations about the Lithuanian employees’ attitude to work as he found them in 1998:

“When we have a goal to attain in my culture, we will start thinking about how to reach the goal. In Lithuania employees often try to find the first excuse not to continue working... They appear to reason this way: how can I find the first problem so that I can stop. I knew this before I came over here so it was not a big surprise to me. So what I do is that when I give the task to a guy I go to or call the next day and ask: ‘what have you done about the things we talked about yesterday?’ And he would usually say: ‘I had to stop, because the data is not correct.’ Of course it takes a lot of time to force him to work continuously. But later he realizes: ‘I can not find any more excuses for not reaching the goal. So why have this Danish guy sitting on my neck all the day. I better do something myself.’

The Danish managers believed that it was necessary to continuously emphasize the need for employees to take initiative. They had to be firm and fair if they should be able to make the required change in the organizational culture. The first Lithuanian Managing Director, Mr. Daublys, was therefore fired as test case for the others. He spoke limited English when appointed and this made communication at top management level difficult. He was therefore requested to improve his English skills and was given a sufficient period of time to do so. But his determination faulted.

Quality was another important issue that the Danish expatriates paid attention to. Every Wavin subsidiary must have at least ISO 14000 Environmental Management System certificate. The Danish managers pressed hard to achieve this goal and in March 2003, Wavin Baltic received ISO: 9001 Quality Management and ISO: 14000 Environmental Management compliance certificates.

In order to strengthen its international corporate culture Nordisk Wavin has established a Nordic Management Committee, where country managers and functional managers meet each other on a monthly basis to work on regional projects and to share their experience. Also, there are Wavin and international auditors, such as KPMG who do the auditing of the company. However, as long as all planned goals have been attained the external control over the company management and processes are not extensive.<sup>5</sup>

---

<sup>5</sup> The nature and extent of control vary among the departments, depending on their needs and management expectations. For instance, Quality Department is audited once a year, work safety is checked annually. The ISO Environmental and Quality Management system’s compliance to ISO standards are also controlled annually by the Lithuanian branch office of *Den Norske Veritas*.

## **Lithuanian Managers' Perception of the Change Process**

The Lithuanian managers did not dispute the professional capabilities of the Danish managers but they did not consider them to possess sufficient interpersonal skills to work in a foreign country. They felt that the training programme for the local employees was poorly planned and the contents of the training were inadequate for their purposes. They were also dissatisfied with the type of technology initially transferred to the new joint venture and work procedures were hastily changed without adequate preparation of the local employees for the change.

The first Lithuanian Managing Director had this to say about the training programme:

“They (the Danish managers) received substantial amount of money from a fund to train us. They shouted “training, training, training”! They brought 10 of our people to a Polish factory for 10 days. I was in England for one month to take a course. Our accountant and Chief Engineer went to Denmark for sight-seeing..... and the training was over!! They all (Danish managers) appointed themselves as teachers and shared the money among themselves. One of expatriate managers in production was responsible for training our employees in production. Workers would come to me and complain that he is too restrictive in showing what to do.... We were used to the soviet times, when everyone shared his knowledge from the bottom of his heart. However, they showed us not more than needed. None of the teachers opened his heart to us.”

He also found the Danish managers to have arrogant attitudes towards the behaviour of Lithuanians and their way of doing things. He gave the following example to illustrate his observation:

“I remember, I asked the President of Lithuania to participate in the opening ceremony of the factory. There was also a president from Wavin BV, can't remember his name. The Lithuanian president was 5 or 10 minutes late because these kinds of officials have various hindrances as usual. The President of Wavin BV started showing dissatisfaction that the Lithuanian president was late. ‘What kind of attitude do you have here? What kind of country is this, where we have to wait that long for the president and can't start the opening ceremony?, he retorted to me...I find such type of behaviour highly arrogant”

With regard to technology transfer, the Lithuanians noted that initially Nordisk Wavin transferred 15 year old equipment to Wavin Baltic. The local employees were astonished. According to the Quality Controller, “some of the equipment was not new, presumably because they think that our people are not competent enough to handle new technology.... Now we have said enough is enough! You buy used equipment which is just three years old and you need to replace everything after a short while.”

The current Managing Director also has this to say:

“...when I started working I was given a chance to go to Denmark and see how business is done over there. I was not given any precise instructions on how I should develop business in Lithuania; I was just showed how Danes do business in Denmark. Then, having the same purpose, I went to Poland. Wavin in Poland is the same; however, Poles have different market and different client basis. I came back to Lithuania and had to decide how I should do business...”

Another Lithuanian manager commented on the working procedures introduced by the Danish managers in the following words:

“I found here [in Wavin Baltic] more bureaucracy than we had in a Lithuanian enterprise where I worked. Maybe this is a bureaucracy in a good sense. We were asked to draw up annual plans, calculate our resources, make our action schedules and this was very time-consuming. We did not have so much writing in the Lithuanian company. Over here if we have a meeting, immediately we draw up a memo, an action list, we determine who does what, and there are tons and tons of these meetings and we are writing and writing, planning and planning, and maybe we had really too much of this bureaucracy. Probably this is the bureaucracy in a good sense.”

### **Changes in the Danish Approach**

The Danes appeared to have learnt their lessons. According to the current Quality Controller, Wavin’s management is now quicker at changing technology in the company and Lithuanian employees have also become quicker at mastering the application of new production technologies. He adds:

“Recently we installed a new production line but manufacturing process never stopped as the installation of new equipment and the manufacturing was taking place simultaneously. In a week and a half we have mastered the process and just yesterday we launched a new product using the new equipment.”

This is how the marketing manager described supervision and knowledge transfer process in 2002:

“Initially the Danish expatriates were visible. They virtually took control over every aspect of the management. But later on, they became less visible. They allowed us to make proposals. We would suggest and they would assess our proposals. In this way we would come to the solution we both deemed correct and agreed upon. They no longer blindly ordered us to work only their way, because they noted there were differences. You can’t compare Danish and Eastern European markets. Customers’ mentality, traditions and characters are different. Now, year by year, we grow in resemblance; however, we did not have such a situation before”

Another Lithuanian manager reflected on the process as follows:

“I cannot say that the plan was very clear at the beginning. There was a plan however we were a young organization without experience we did not have a consistent plan like we have now. Now we have full clarity, we know the direction we are going to, we know our goals, our mission and vision, the tasks and functions of every unit, responsibility is more distributed and specialized, we have more people and we are now better qualified. Most people now speak English. Product managers in my department who communicate with other plants, as well as sales department, logistics department – everybody speaks English, because they need to communicate with suppliers on the regular basis, because, as a rule, all suppliers are located abroad. Only managers operating in Belarus, Kaliningrad, Klaipeda zone, Kaunas zone do not speak English, because they do not communicate to Western countries.”

On reflection Mr. Kalriis also admits that it has been a lot easier to transfer technical skills to the Lithuanian employees than to develop their management capabilities. In his view, the Lithuanian managers had difficulties “unlearning” the management systems they used during the Soviet era although they (themselves) acknowledge the weaknesses of those systems in a market economy.

## Looking Ahead

In 2006, Wavin Baltic had approximately 30-33 percent of the plastic pipe market share in Lithuania. The company's goal is to retain and increase its market share and to become a market leader. Wavin Baltic's two major competitors Pipelife and Uponor both make good quality pipes. Pipe life has a factory in Estonia and representative offices in Vilnius and Riga (thereby mirroring Wavin Baltic's structure), whereas Uponor has factories in close geographical proximity - in Poland and Finland. Wavin Baltic is clearly aware of what it will do in 3-5 years. Firstly, the company is going to expand production, introduce new products, which will come from other Wavin factories. It is expected that the three competitors - Uponor, Wavin and Pipelife - will even further strengthen their market positions in the coming years.

In fulfilling these ambitions, Wavin Baltic has to address another unexpected challenge. In 1997 Mr. Kalriis, remarked that "Manpower is never a problem. It will never be a problem. It is a question of working conditions." In 2007 the new Lithuanian Managing Director said: "Manpower is a big problem." Wavin has to raise salaries in order to retain good employees. The managing director continues: "You can't train a new employee in two weeks or months; over here you need twelve months so that the new employee could gain the experience he needs. This is difficult. Had the administration failed to take any actions this year, I myself would have thought of quitting".

Thus by the end of 2007, one can safely say that Wavin Baltic has successfully laid a solid foundation for growth. It has clear goals for the future. But it faces tougher challenges in human resource management. The question is whether the Lithuanian managers are fully prepared to shoulder the responsibilities for growth or they will still require close parenting from Denmark in the coming years.

**Annex 3 – Second case study: Aalborg Industries – Aalborg Industries Vietnam**

**Aalborg Industries: the journey in Vietnam**

Li Thuy Dao

Centre for International Business, Department of Business and Management, Aalborg University

January 2012

## **Aalborg Industries: The journey in Vietnam<sup>1</sup>**

January 2012

This case is a story of managerial experiences in a Vietnamese subsidiary of a Danish boiler manufacturing MNC, namely Aalborg Industries A/S. Since December 2010, Aalborg Industries A/S has been divested to a Swedish owner and thereby carried a new name: Alfa Laval Aalborg. In the following story, however, the old name Aalborg Industries will be used for historical reasons, especially since it still appears to date as the Aalborg company's webpage and logo.

### **Aalborg Industries A/S**

#### ***From the Aalborg shipyard to a global company***

Aalborg Industries A/S has a long history dating back to 1912, when its mother shipyard was founded in Aalborg by a chief engineer from Frederikshavn Shipyard together with his brother. Already in 1919, the first boiler was designed in-house and produced for the shipyard's own vessels. During the 1920s-30s, the shipyard continued to develop its boiler business. But it nearly collapsed in 1937 as a result of financial difficulties experienced under the Depression. Aalborg City took over the shipyard in order to prevent job losses. However, by the end of the year, it was sold again to a Danish shipping giant, who ran it until 1987. During these years, Aalborg Shipyard, as it was then renamed, continued to develop and diversify its range of boiler products, supplying to an increasing number of international shipyards and ship owners. It was in this period that the first foreign subsidiary was set up in the Netherlands, i.e. in 1978, to take care of after-sales services.

From 2005 to 2010, Aalborg Industries was owned by two investors- (a) the Nordic investment fund "Altor 2003 Fund" (62%), and (b) the Danish Employees' Capital Pension Fund "LD" (38%). Since December 2010, Aalborg Industries has got a new owner, namely Swedish Alfa Laval, a world leader in heat transfer, centrifugal separation and fluid handling.

Since its first subsidiary abroad was established in 1978, Aalborg Industries has expanded into a global company with nearly 3000 employees worldwide, more than ten sales subsidiaries and branch offices, 20 marine global sales representatives, and three production subsidiaries in China

---

<sup>1</sup> This case was prepared by Li Dao primarily using materials from her dissertation work on intercultural interaction (Dao, 2010), where Aalborg Industries was used as one case, and an old version draft by Lam Dao based on her explorative interviews with informants at the company.

(since 1995), Brazil (2000), and Vietnam (2004) apart from the production unit in Aalborg. Both production subsidiaries in China and in Brazil were a result of acquisition of a local boiler company. They are both responsible for their local sales office, whereas the sales office in Vietnam is an independent establishment reporting directly to the Aalborg headquarters.

Today, Aalborg Industries is recognized as a world leading marine boiler engineering company and a major supplier of inert gas systems, thermal fluid systems, and shell and tube heat exchangers. The company's activities are divided into two main areas, i.e. marine and industrial. The marine boilers constitute the main line of business and account for more than 85% of the company's total sales. Its products and services have always been characterized by excellent performance, and over the years it has earned a 'Best in Class' quality. This has resulted in long-term relations with its customers, and up till now the company has delivered more than 5,000 boilers and thermal fluid heaters and more than 25,000 marine boiler concepts to hundreds of customers.

Aalborg Industries describes itself as "ONE Global Company". With such a long history of serving the maritime sector worldwide, while being an important workplace in the local Aalborg, Aalborg Industries seems to take a pride in having a unique corporate identity grounded in rich history and strongly supported by "a flexible set of mission, vision, and values". According to its 2007-2009 strategy document, the company's mission is "to provide, on the basis of world leading technology, reliable, innovative, and optimal solutions that are environmentally friendly and ensure lowest life cycle cost". Its vision is to be "Your Preferred Partner". Its seven core values are:

1. sustainable growth,
2. value creation,
3. high employee performance,
4. innovative and firm leadership,
5. total care,
6. respect of cultural and religious differences, and
7. high moral and ethical behaviour.<sup>2</sup>

## **Aalborg Industries Vietnam**

### ***Aalborg Industries Vietnam – grasping the promising market potential***

---

<sup>2</sup> Source: company homepage.



In September 2003, three top executives of Aalborg Industries came to Vietnam together with a Danish business delegation for the purpose of promoting the company's marine products and after sales service. Following this visit, Aalborg Industries opened a sales representative office in Hanoi in February, 2004. The office was headed by a sales director from the Aalborg headquarters on a visiting basis, while the daily management was undertaken by a local deputy chief, Mr. Doan.

About the same time, Aalborg Industries participated in an international shipbuilding exhibition in Hanoi organized by the Vietnam Shipbuilding Industry Group, Vinashin. The two parties met and discussed possibilities for cooperation. A few months later, in October 2004, Aalborg Industries entered a joint venture agreement with Vinashin for the production of marine boilers. The joint venture was named after its Danish parent company, namely Aalborg Industries Co. Ltd. The two parties invested a total of three million USD in a new plant that would supply marine boilers to the rapidly growing shipbuilding industry in the region. Aalborg Industries contributed 75% and Vinashin 25% of the total capital. This joint venture became the fifth manufacturing unit in the Aalborg Industries Group at that time.

### **Joint venture motives**

For Aalborg Industries, Vietnam (AIVN) was an interesting destination for setting up production for a number of reasons. As explained by the general manager of the group's Business Intelligence and Marketing function, Mr. Jensen, "We see a potential market in Vietnam - that is why we have a joint venture. We also want to export from Vietnam to Singapore, Korea and Japan... It was not low cost in Vietnam compared to China, as they are at the same level. But we want to diversify risks. The incident of SARS in China in 2003 created an alert..." The market motive, as well as the risk diversification, was unanimously confirmed by both the first and the second managing director of AIVN. The top management was consistently clear about the promising growth of the shipbuilding industry in Vietnam, considering the Vietnamese government's strong commitment in terms of policy improvement and strategic expansion. Access to this market was expected to be gained through the partnership with Vinashin. As Mr. Andersen, the first MD of AIVN explained, "Aalborg Industries contributes technology, and Vinashin contributes market value"; but he also added, "We can only get Danida support if we have a local partner". On the part of Vinashin, according to the representative board member, the joint venture was largely motivated by the opportunity to acquire knowledge about western boiler technology.

In May 2006, the new plant was inaugurated, after exactly one year of construction. It was built on a 17,000-square metre plot in an industrial zone of the Haiphong coastal province, about 100 km to the east of Hanoi. In the beginning, there were a total of 44 employees, of whom seven

were white-collar workers. The board of directors consisted of three members, two from Aalborg Industries, i.e. the vice president of Aalborg Industries A/S (board chairman) and Mr. Doan, Deputy Chief Representative of the Hanoi sales office; and Ms. Pham from Vinashin (vice chairman). For the daily management, a managing director was appointed by Aalborg Industries, i.e. Mr. Andersen, and a deputy by Vinashin.

Before the inauguration, all staff had undergone nearly a year of a stringent training programme conducted by the Danish management and engineers. The factory was equipped with all pertinent machinery and automation for production of the high-quality boilers.

In 2009, Aalborg Industries ceased the joint venture agreement with Vinashin, taking 100% ownership of the Hai phong manufacturing company. Until then, the management of the company had experienced varying degrees of influence from the Vietnamese partner. Therefore, an introduction to its background will be useful in understanding the joint venture.

## **The Vietnamese partner - Vinashin Group**

### ***A big state monopoly***

Vinashin was originally established in 1972 as the Vietnam Shipbuilding Union in the government's attempt to restructure the domestic shipbuilding industry. In 1996, the Vietnam Shipbuilding Industry Group was born to consolidate 20 shipbuilding-related companies, including seven shipyards. Together with the establishment of Vinashin, the government launched a national plan for developing the shipping industry in 2001 – 2010, where Vinashin was targeted to become the leading shipping agency with modern technology, guiding the national shipping industry to become one of the nation's leading industries. In 2006, in a new restructuring attempt, Vinashin was experimentally transformed into a business group holding a major share (up to 100%) in its associated companies.

Today, the Vinashin Group has more than 100 subsidiaries including shipyards, finance companies, steel manufacturers, construction companies and supporting industry companies. The local shipyards have received heavy investments for increasing production capacity, and have since 2007 been able to deliver 53,000 DWT vessels<sup>3</sup>.

On the international scale, Vinashin has been active in a number of projects. Earlier collaboration includes a joint venture with a leading Japanese shipyard since 1996 and a joint venture with a Korean partner in recycling shipping materials. In recent years, Vinashin has partnered with a Korean company in the manufacture of marine interior equipment, a Taiwanese in container

---

<sup>3</sup> DWT = Dead weight tonnage or the total carrying capacity of a vessel – i.e. what the vessel can carry safely.

manufacturing, and a Japanese in ship design and repair. Aalborg Industries became the first collaboration with a Danish partner, starting in 2004. The second collaboration with a Danish partner was a licensing agreement for the production of diesel motors made in the same year. The latest partnerships are another licensing agreement for diesel motors with a Japanese producer in 2009 and a joint venture with a Malaysian company in steel manufacturing. More joint venture projects within shipbuilding are under negotiation with a Korean and a Dutch partner.

The organisational structure of Vinashin is composed of a Board of Directors (BoD) with eight members and a Board of Management (BoM) with nine chief officers, most of whom are also members of the BoD. The Chairman of the BoD is also the Chairman of the BoM. There is also an International Department headed by Ms. Pham. The Chief Business Officer sits in this department and is mainly responsible for the management of international partnership projects.

Since its establishment and with heavy investments as well as consolidation attempts, the mission of Vinashin has been to lead and enhance the competitiveness of the domestic shipping industry. The spirit of this mission is, to a certain extent, reflected in Ms. Pham's description of Vinashin when asked about a working culture at the organisation: "It has to do good to the nation rather than just make profit... and we are working hard to serve the nation".

## **Vietnam's macro economic and socio-cultural background**

In the last fifteen years, the Vietnamese economy has been a "miracle" in the eyes of foreign investors and analysts. With an average economic growth of 7-8%, Vietnam has the second highest growth in Asia, (just behind China). The government's major "renovation" reform in 1986, known as the *Doi Moi* policy, has turned the nation from a centrally-planned economy characterised by heavy industry and import-substitution policies, (experiencing stagnation, high inflation and serious trade imbalances), into a market-oriented economy promoting export activities and foreign direct investment, later stimulating private business development.

Foreign direct investment (FDI) has since been among the major drivers of economic development in Vietnam. The total amount of registered FDI rose from 328 million USD in 1991, to 64 billion USD in 2008, according to official national statistics. FDI has provided employment for 1.4 million people, creating as many as 200,000 new jobs in 2008 alone<sup>4</sup>. It also constitutes about 15.5 % of GDP (in 2005). About 59% of the total registered FDI come from

---

<sup>4</sup> <http://www.chinapost.com.tw/business/asia/vietnam/2008/12/27/189529/Foreign-direct.htm>

five regional top economies, i.e. Taiwan, Japan, Singapore, Korea, and Hong Kong. Danish FDI into Vietnam amounted to nearly USD 435 million registered capital in 2008, ranking as the 24<sup>th</sup> largest FDI investor in Vietnam (FIA). Although with a few projects back in the 1990s, Danish FDI into Vietnam has only risen in the last decade along with the global outsourcing trend and in particular the Danish government's business-to-business development initiative known as the B-2-B (formerly private sector development [PSD]) programme, which provides financial support for eligible partnerships between Danish firms and firms in specified developing countries. Today, there are more than 100 Danish firms active in Vietnam, of which about 30 are joint ventures.

Business culture in Vietnam has been influenced by different macro cultural forces through a history of wars, colonization since the beginning of the first millennium and later communist governance until today. Although described as the crossroads between peoples and civilizations ("carrefour de peuples et de civilisations", Olov Janse, 1961), Vietnam today can be generally identified with a primarily Confucian-inspired education system where people are taught to behave in a hierarchical, men-dominated social order and in favour of social harmony and image; together with a communist-style working culture largely embedding bureaucracy and collective work incentives. As a consequence, the Vietnamese tend to work interdependently rather than independently, and in a manner that is relationship-oriented rather than task-oriented. Meanwhile, influences from western culture remains mostly recognizable through infrastructure, including the current Latin-based alphabetical system, and to a growing extent through leisure and consumption practices, notably among young urban Vietnamese. In the eyes of foreign investors, dealing with local people, as well as local organisations, and managing local employees are challenging tasks in terms of what drives their behaviours and ways of thinking, taking the individuals and the above-mentioned societal context into consideration.

## **Managing the joint venture**

Back to the story of Aalborg Industries, we now move to the post-formation stage of the joint venture to uncover the particular challenges experienced by its managerial members. In general, the management of (AIVN) can be divided into two phases. The first phase was characterized by the setup of production facilities, the intensive training of the local employees, and management by an expatriate managing director who favours a westernized company and a straightforward management approach. The second phase was marked by the replacement of expatriate MD with a refocus on managing the people and building a relationship with the local partner.

## **Phase 1 – Setup phase**

### ***Set-up phase – Training from A to Z***

In the first year of operation, the new joint venture company went through heavy construction and technology transfer from the Danish partner. The management of the joint venture was formally shared between a Danish Managing Director appointed by Aalborg Industries (Mr. Andersen), and a Vietnamese Deputy Managing Director appointed by Vinashin (Mr. Vu).

The mission of Mr. Andersen was to ensure that the joint venture was put into operation according to plan, to secure all quality and work procedures in accordance with Danish standards, and to coordinate the knowledge transfer process. Before joining AIVN, Mr. Andersen had been employed at Aalborg Industries A/S for only nine months. According to the expatriate, he had been working in 50 different countries and Vietnam was country number 51. The Vietnam mission was, however, his first time as a long-term expatriate. He described this as different compared to his earlier experiences abroad, as he explained, “...If you are alone and you need to make the local people work for you, then you see the situation very differently. So, this is the first time I am on my own in a country responsible for building a factory. I do everything - training people, buying equipment, construction...”

As far as training was concerned, Mr. Andersen was both a trainer and a training coordinator, who planned all training activities and accordingly requested instructors from Denmark, insiders or outsiders, for the Haiphong unit. With a technical background, he was providing both technical and management training. The training involved sending local staffs to the headquarters and in return Danish experts to the Haiphong unit. In fact, during the first period, only the local quality manager was sent to Aalborg for six weeks for on-the-job training in production techniques and quality management, and two Danish workers came to Haiphong in the role of technical advisors. Speaking of the effect of training in both ways, Mr. Andersen expressed his experience of the greater benefit of having a Dane in Haiphong compared to sending a Vietnamese to Denmark for training. As an example, he was comparing one of the Danish technical advisors and the local quality manager.

“...Also in the office, sometimes he [the technical advisor] can help the girls, you know, to purchase the order. Anything. We can discuss how to solve human resource problem, calculations, bonus compensation for this and that. He worked in China, Egypt. So, he is very helpful in the company. The quality manager sent to Denmark, he could learn something, but most of the knowledge stays inside; and if he leaves the company, the knowledge is gone.” ...“It is not that he is not sharing his knowledge but he is not in a position in the company where he can actually influence so many people. It’s not possible even if he tried to share his knowledge, how should he do that, should he make speeches or...? But if we bring

in a Danish supervisor who is following all blue-collar workers, following all boiler production, the influence this person has on these blue-collar workers is much, much higher. I am surprised how effective a Danish boiler maker is... He's also teaching our garden worker to cut trees. It just proves that he influences us a lot..."

The consequence of this experience is that Mr. Andersen stopped sending the Vietnamese employees to Denmark, after the quality manager. However, the quality manager, i.e. Mr. Dao, saw the challenge of sharing his acquired knowledge in a different way. He said, "I think the systems are similar. But the working attitude of the people there is much, much better – so much that when a manager wants something done, it will be done immediately. Whereas, here, you may have to tell it again and again without getting it done, which is not easy. There is a big difference." Mr. Dao also expressed the positive side of having the Danish technical advisors in Haiphong as the links between the joint venture and the Danish parent. "They are intermediaries between us and Denmark when there are problems. They report the problems to Denmark quite accurately, as they are technical guys... whereas, the director upon a short daily visit taking a look at the boilers cannot know what is happening inside the boilers." As production employees from the Aalborg unit, these technical advisors were mainly helpful in solving "small" technical issues in production, whereas in case of bigger technical issues, they had to contact the right decision maker in Denmark.

Just like his Danish colleagues in the role of technical advisors, Mr. Andersen's training scope turned out not to be limited to the professional area but extended to basic do-it-yourself skills, such as teaching the secretary to use the keyboard in Excel or even a kitchen worker how to clean the sink, the floor and how to store food, etc. Let us hear an example from his account.

"I was very surprised at the beginning because I have never expected that I should spend time discussing how to store meat. But you know, when I came to the kitchen, I was seeing girls sitting on the floor with a big knife just hacking meat, and meat and bone just flying around the kitchen. I just realized that someone needed to do something. And I tried half an hour to explain how to do it. It just went (happened) with the Managing Director of Aalborg... My training involved everything, (though) not boiler making. I do not know how to produce a boiler - I need a supervisor from Denmark. But the simplest thing in management is decision-making. People here have no experience in decision-making."

Among highlights of the training agenda in this phase was the introduction of work security practices in accordance with Aalborg Industries standards. Two examples emerged in the stories of the informants: the helmet incident and the protection shoes incident. Both items were part of security standards applied in all Aalborg Industries' production units in Denmark as well as overseas, where workers' resistance against the new practices were observed at varying degrees. In the case of the joint venture in Vietnam, such resistance was reflected in the story told by the

second Danish managing director who was posted to AIVN, Mr. Hjorth, in a little fragmented manner as he tried to reconstruct what he had been told.

“...And we had a long fight with the security shoes. It was before me, now I’m just telling what I’ve heard. But I’ve heard they invested a hell lot of money in these expensive shoes to keep their feet safe. These shoes have to be used in Denmark in such places. So they should also be used here. And they were suddenly fighting against it (i.e. wearing shoes)... They went around without wearing any shoes at all. Then suddenly they were expected to use the shoes. Three days later, all the shoes were to be picked up in the canteen. They told Mr. Andersen that they were not good quality shoes and they would not wear them. Then he found out that one pair had a defect. All the shoes were stacked up and (they insisted), ‘we don’t want to use them, we want to use our own’. But half a minute later, they went for them again... and now they are using them. It’s very complicated. But it’s really a fight, all the time.”

The resistance of the local employees was elaborately reflected in the interview with the local quality manager and production foreman, as they tried to explain the differences in the perception of risk among Vietnamese and the Danes. Their experiences told that such a risk as that of work accidents, perceived to be high by the Danes, might be perceived by the Vietnamese to be low and therefore unnecessary for elaborate protective measures. But it can either be a matter of perception or a matter of routine, or both. In a similar manner, the introduction of protective helmets was met with some resistance, a reflection of the Vietnamese employees’ reluctance in accepting the new routines. They finally adopted it, even at a faster rate than what Mr. Hjorth experienced in Poland and Romania.

The last piece of training mentioned by Mr. Andersen was concerned with the decision-making skill, which appeared to cost him a lot of effort, because it was not as easy for him to find qualified staff in Haiphong compared to Hanoi. He explained: “We have tried different things. We have tried to hire elder and more experienced people, and it gave problem with the mentality. The mentality was wrong – stealing, corrupting, and lying. That’s what stays with these people. It is very normal and very acceptable to get the kick back from suppliers.” Another challenge was that local people with prior work experience with Asian employers like the Japanese, Taiwanese, Korean, and Chinese often had “never been working on their own or tried problem solving. In Mr. Andersen’s words, “they have been instructed very careful what to do and what not to do”. Having learnt this lesson, Mr. Andersen admitted he would rather hire younger open-minded people without work experience, whom he found relatively better aware of cultural differences and more eager to learn the western way of thinking and doing things. In his view, the western way was “the only way to build an organisation”.

Such experience as above seems to have been commonly shared among an expatriate network to which Mr. Andersen was attached. “You just hear the same story again and again”, he told, while adding that members of the network were “very interested in talking with each other and learning

from each other”. Besides this expatriate network, visiting auditors were also for him interesting to talk with because he “learned a lot from problems” told by the auditors.

Again, evidence from the Vietnamese managers provides a different side to the story. They mentioned some disagreements in quality standards between them and the Danish supervisors (or technical advisors) and how they attempted to voice themselves. “Sometimes, decisions made by them (the Danish supervisors) are in our opinion not correct... even contradicting the targets. But they are the specialists... If we don’t follow they will report to the director and then we will be forced to follow”, explained the quality manager. Then the production foreman elaborated, “for instance, Mr. Dao is in charge of the quality area, he knows well about international quality regulations... The international standards do not require such a high level of quality as the Danes require. And if we have to follow the Danish standards it is time-consuming and costly.” However, it is not always the case, as Mr. Dao added, “some decisions are contradictory to the quality requirements, not always higher than these, because then we may still agree... They make their decisions based on their subjective judgments, regardless of what, and they think they are always right.”

[Mr. Dao:] (Of the decisions) *very imposing... In many cases, we even end up quarrelling in the workshop.*

[Mr. Thai:] *Of course, we argue, but... they speak the same language so they understand each other...*

[Mr. Dao:] *In most cases they impose their opinions... And in their minds, they were born from the boiler, so it is very difficult to change their minds, for instance when you go out there and tell this guy has 15 years of experience with the boiler, then they will listen to whatever he says...; they were born from the boiler...*

When asked about their responses to such attitudes as above, they maintained that they gave up providing suggestions to the Danish instructors because they felt their views were not taken seriously. Mr. Dao put it this way:

“The decisions are basically imposed on us. Indeed, as we started, we had our own routines and thought we were right. But gradually, as our opinions became ignored over time, we started to make fewer suggestions and then stopped making any suggestions at all, i.e. we did as they told us to do. It was like giving them an inch and they would take a mile. Generally, it is ok if the specialist is here for only two or three months.....”

“...The problem here is that particular tools are not available in Vietnam, that’s why we do things manually, which also means we do them in our own way. But they insist that we do them in their way, despite the lack of relevant tools. So that is why we fight...”

### ***Board management – Issue of partner interests and transparency***



At the top of the joint venture management is the board of directors consisting of three members: the president / CEO of the Aalborg Industries Group as chairman, the sales manager from Aalborg Industries sales office in Hanoi, Mr. Doan, and Ms. Pham, the head of Vinashin's International Department, as vice chairman. The board was required by the charter to meet once a year. But they had three meetings in the first year, since the joint venture partners had to agree on a wide range of issues. Mr. Andersen informed that they would subsequently have only one board meeting per year, as the structure of Aalborg Industries worldwide was changing.

Explaining his role as a board member, Mr. Doan said: "Something I could contribute with was about contacts, which is very essential, as the nature of business in Vietnam puts emphasis on contacts and networking... Then my contribution was also to handle cross-cultural matters, because the two parties have completely different cultures, different human values, different ways of doing business, and what is usually seen in joint ventures is somehow a conflict of interests... Before the meetings, I prepare for the two parties issues that are outstanding, so that when they sit down at the meeting, they know beforehand what the issues are. Partners' mentality, approach, and solutions which the two sides can agree on, are my contributions."

From his background, Mr. Doan had experience working with western companies and also joint venture companies before joining AIVN. He also had experience working with Vinashin in his previous jobs. He found himself to have the right profile to contribute to the joint venture management. Besides, he was also helpful to Ms. Pham as he sometimes helped her in the communication, as she said her English was not very good. Outside the scope of the board, however, he was not involved in the technical matters in the joint venture.

Ms. Pham recalled her concerns about the transparency of information and activities as she was sitting in the board of the joint venture. "I only got informed when everything was done. I never knew how the expenses were calculated... I could not understand how come this or that item ended up with that number. The people they sent down here, who they are, I don't know... What they do, I don't know... and they had a new chief accountant all the time..." She also expressed the disappointment in learning expectation of the local partner whom she represented. "In the beginning, we thought we could learn some technology. But it turned out to be nothing. They brought nothing out here, but the cover [i.e. the boiler cover]."

### ***Operational management – "Joint venture is not a romance"***

The daily management of the joint venture was to be shared between the Vietnamese deputy MD, and Mr. Andersen, the MD. Before joining the joint venture, the local deputy MD had been with Vinashin for six months after having worked for another joint venture company before as a supplies manager. Rather than gaining insights into what this man actually contributed with in the management of the joint venture, I received accounts of the uneasy relationship between him

and Mr. Andersen. In a way, it was told indirectly, as in the following quote from Mr. Doan, the sales manager of the sales office.

“A Vietnamese when entering a joint venture in the position of deputy MD, of course he assumes that he has some sort of authority and power, showing up in front of all the workers and introducing himself, “everyone, I am the deputy director here...”; and right away there is a ‘clash’ between the two, in front of the workers, as for Danes, this is not nice, and perhaps there is also a personal issue here, and the other guy may think, “I am the boss, you are employed”, while the Vietnamese is also saying, “I am also the boss, I am not employed but appointed by Vinashin for this position”. The Vietnamese perception is: I am in this position representing the capital contribution of Vinashin, whereas the Danish perception is: you are in this position, you are paid to do the job, and we do not accept if you are lazy, cheating, playing around... no way.”

According to the joint venture charter, the deputy MD should report to the MD, just as specified in most joint venture charters, as Mr. Andersen explained. What Mr. Andersen experienced about this structure was that it reflected the issue of what he called “double management”. “In most joint venture companies, he said, “there is a double management; and this is the reason why in many joint venture companies, this is disaster... But, in our company, we try very hard to keep the management as limited as in the charter, meaning that the MD refers to the Board and the Vice MD to the MD. And this is something that we have spent quite some time discussing at the Board Meeting because this is very unusual, it is not usual that it is meant to be so.”

Speaking of his experiences in this regard, Mr. Andersen kept emphasizing his view of having a local partner as a negative sign. He was speaking out of his experience through observation through his ‘joint venture network’: “In the beginning I tried not to be straight forward when talking about the joint venture, because most people have a very romantic way of looking (at joint ventures). They think that partners just need to share knowledge and then they can work very well together. But that’s not what I see. I see a lot of fighting for power, I see a lot of fighting for money, I see a lot sneaking around the company - spying, releasing information that should never have been released etc. It’s daily business.”

Then Mr. Andersen returned to his experience with the joint venture which he was running, just as a confirmation of his generalization. “We have seen also in our company very aggressive and hostile attitudes between partners fighting for power. I don’t know why and what. ...It’s an aggressive attitude. That’s why many have said that we work hard to keep it according to the charter, this is the way we have agreed, this is the way it has to be, we do not separate this building into two floors with a Vietnamese office and a Danish office, no chance...”

There were 44 Vietnamese employees in AIVN, of which seven were white-collar workers. Asked about the role of the middle managers, he said they acted simply as “links”.

“The managers? But I know what you are heading at. I can just call them white-collar workers. All of them they are the links to the blue-collar workers. We are here to produce boilers, and they are produced by blue-collar workers. So we really need the link between me, who only speaks English, and the blue-collar workers, who only speak Vietnamese. So the white-collar workers, i.e. Vietnamese nationals spending [interacting] with the Western culture speaking English, are a link. They don’t know how Aalborg Industries operates; they don’t know how to produce boilers, etc. They are the link between the people who know Aalborg Industries, who know the customs, who know what we should do and the people who actually do it. So they are really important. But I really can’t distinguish between managers and non-managers. They are just white-collar workers.”

### ***Mentality and communication mismatch***

We also discussed the challenges of cross-cultural communication within the joint venture with Mr. Andersen. In his view, the challenge was not an issue of “culture” but one of “mentality.” He explained it in the following words: “It’s not culture, not the language that is the problem. It is the communication problems, something about mentality.” He talked about a welding test as an example, where a conversation arose between him and the Quality Manager, Mr. Dao.

[Mr. Dao]: - *We only have five welders.*

[Mr. Andersen]: - *I hope it is not correct ... Can you please make measurements on the test materials and then make a list of all the materials we have and we can use for the test?*

[Mr. Dao]: - *Yeah, I can do this.*

(The next day, he came back with a nice, professionally done list)

[Mr. Dao]: - *25 welders.*

[Mr. Andersen]: - *I thought you said five welders, but now you say 25.*

[Mr. Dao]: - *Yeah, 25.*

[Mr. Andersen]: - *OK. Then we don’t have any problems.*

[Mr. Dao]: - *No, not problems.*

(Two or three weeks later, when Mr. Andersen had to check again)

[Mr. Andersen]: - *We talked about the DNE class. Do you remember how many welders we have...?*

[Mr. Dao]: *Yeah. Four, five.*

[Mr. Andersen]: - *But you know, you showed me a piece of paper, and if I’m not wrong you said 25. Maybe you should bring back the paper and we have a quick look.*

[Mr. Dao]: - *We have only five.*

[Mr. Andersen]: - *Why did you say we have 25 then?*

[Mr. Dao]: - *Oh, no, I said, what we should have is 25.*

“And then I gave up”, concluded Mr. Andersen, admitting that he experienced the same thing “ten times a day with different people”. “I don’t know what it is...” he continued, “This is something really Vietnamese or Asian, but it happens very often...I have the feeling that they are trying to run away from problems. You know, the Danish attitude is if you see a problem, then you should focus on it, you need to solve the problem. We are not talking about if it is your fault or my fault but we need to solve the problem. I have the feeling that a lot of Vietnamese people do exactly the opposite: they turn away.”

In the meantime, the experience of the two Vietnamese managers offered completely new insights into communication issues at the Haiphong factory. The issue came up as we were talking about how they experienced moving from their previous Asian joint venture workplaces to the Danish joint venture workplace. “...The first shock was a culture shock”, Mr. Dao reflected immediately, “The way of working, the way of speaking, and the way they treated us, were a little different. That was a shock, but we adjusted ourselves and got used to it.” When I asked for example, Mr. Dao said it was not easy to give an example, but then he hinted at the lack of respect he saw among the westerners due to their use of language. “I think it depends on one’s perception”, he explained, “Maybe they think it is normal, but for us the Vietnamese, that kind of language is only spoken among the motorbike chauffeurs or the fish sellers at the market, not in an office... That was the shock in the beginning... It happens again and again... And we are now used to that, we just don’t need to listen...” And to his surprise, during his trip to Denmark, Mr. Dao found the people in Denmark much more polite than he had expected. The unpopular communication style of the Danish MD, which it turned out to be, had a certain consequence, as Mr. Dao told, “...It discourages the employees’ enthusiasm. If they would leave, that would be easy. They don’t leave, but they hang around in a drowsy manner... They lose respect...”

As regards personal experiences of working with the then Danish MD, Ms. Pham from Vinashin expressed her unpleasant feelings toward what she called “an arrogant attitude” of a Danish manager; whereas for Mr. Doan, Mr. Andersen’s working style was rather related to his preconceptions of the Vietnamese as “often bad, mis-behaving, corrupt and cheating”.

### ***A closing mission***

As a general assessment, however, Mr. Dao expressed his (conditional) respect for Mr. Andersen by concluding that the set-up phase was “difficult... He was very successful. Fairly speaking, even though his temper was frustrating, he still succeeded. He is a real manager.” Mr. Thai, the production foreman, added nodding his head, “He speaks and acts accordingly”. In my first interview with Mr. Hjorth, Mr. Andersen’s successor, he expressed a similar impression of Mr. Andersen, though from his indirect experience – unlike the two Vietnamese managers above; and gave an analytical summary of Mr. Andersen’s mission and its outcome: “Mr. Andersen is a very

clever entrepreneur and project manager. And he succeeded in building this factory in three years... Definitely, I couldn't have done it so quickly... But... when you do it so quickly, then you're not thinking about the people, further about relationships or such things; you only think about reaching the goals: the factory should stay there, without any doubt. So he's really such a guy who builds such a thing. And normally he should be taken away when it's built. And somebody should come..."

In the middle of 2007, the Aalborg headquarters decided to cease the employment contract with Mr. Andersen and to send Mr. Hjorth to Haiphong as his replacement.

## **Phase 2 – Managing the people**

### ***A new phase – New management and relationship building***

Mr. Hjorth came to Haiphong in September 2007. He was in his 50s, easily remembered with a smiling face and catching laughter. He had held various management positions over the last 40 years. After high school in Hjørring, Denmark, he took over a family-owned brick business and later gained quite a remarkable profile of international working experience, including stints in Poland for two and a half years, Kenya for half a year, Burma for shorter periods between 1980s and early 1990s. However, the MD job at Aalborg Industries was at the time something new to Mr. Hjorth, as it was his first time working "with the Asian culture", given the nature of his past expatriate missions which he described as only involving "working in the culture, not with the culture". On the other hand, the industry and the organisation, i.e. Aalborg Industries, were also new to Mr. Hjorth. Indeed, in preparation for his new job, he only spent one month at the Aalborg Industries headquarters to receive all kinds of training from production and quality issues to reporting systems between Aalborg and Haiphong.

By the time Mr. Hjorth started, Aalborg Industries Vietnam had been running with 100% capacity and 100 well-educated employees. Only a chief accountant was missing. The Vietnamese deputy MD had left the company three months before. Mr. Hjorth managed to make an agreement with Vinashin that no deputy MD was needed and that he would run the joint venture alone.

### ***Adjustments in training and management***

With regard to training and supervision, Mr. Hjorth realized that the role of the two Danish technical supervisors had somehow extended beyond a proper line. In his observation, "they did not train at all... They took over instead of training the people." Then he decided to make changes. "First of all, I changed from two guys to one guy. One is enough... Now I'm going to let this company be run by the Vietnamese people, not by the supervisor and me. It's a change.

They should really be responsible, they should not rely on us controlling and assisting them, and that we will solve the problems with Aalborg and the customers. Now I am changing so that they should run the company, as an independent Vietnamese company, with a Danish manager, ok, but they should run the company. I should not run the company. And the supervisor shouldn't either. So we should take out the supervisor from the daily work, bring him to what he is, the supervisor of the people in quality, in training, and welding, and these things.”

For this initiative, Mr. Hjorth set up a management group composed of the production manager, the quality manager, the logistics manager, and the chief accountant, to take back the ground so far occupied by the Danish supervisors. He insisted on frequent meetings between him and this group in the beginning. Planning was done in-house 100%, in fact, “97-98% by the Vietnamese”, according to Mr. Hjorth. Interaction with Aalborg was gradually limited to communication in relation to sales orders and deliveries.

On the other hand, Mr. Hjorth was aware of an increasing need for checking, as he assigned more responsibility to the local employees. “Now we are documenting much more... and now they have to sign that they have to check this and that. And the checklist is getting longer and longer. So in fact, we are doing the same as the Russian guys... If you're not checking it, I'm not checking it, if they are not told they should document that they have checked it to me or so, I'm sure it (the performance) will go down. But I also think this will happen in Denmark as well. But maybe a little faster here.”

Mr. Hjorth later gave an example with the extended coffee break, where he had to remind the (production) manager to make sure the break was to be held within the given time span. But at the same time, Mr. Hjorth emphasized the transition at some point to the opposite, i.e. “nobody is checking”, as he had done successfully with his former family business in Denmark. His attitude was optimistic, as he mentioned that he had team leaders who were “very good and very responsible”.

Personally, Mr. Hjorth did his routine tour of the factory everyday and otherwise let people come to him when necessary. He communicated with everybody in the factory, generally as far as the English skills of the employees did not pose a barrier. In some cases because of certain language barriers (e.g. as was the case with a local technician who did not speak English) he managed to exchange technical information quite well non-verbally.

In February 2008, Aalborg Industries Haiphong delivered its boiler number 100 since its production started in 2006. The factory celebrated this occasion to mark the effort of the local workers. As told by Mr. Hjorth, “We are very proud of our workers’ results. It is them and their efforts we are celebrating today. I think that we have accomplished the B2B programme’s

objective, to bring knowledge and technology to our local employees. They are now valuable industrial workers and good examples for the Vietnamese people. They are proving that they can produce high quality boilers to the Vietnamese market and to the world market as well, even to the Korean market with the highest level of quality demands in the world.”



*104 happy Aalborg employees in front of boiler number 100. Source: Ministry of Foreign Affairs of Denmark, online publication.*

### ***Rebuilding the relationship with the local partner***

At the beginning of his mission in Vietnam, Mr. Hjorth received a long to-do list from Aalborg Industries headquarters. And the first thing on the list was to “get a good connection with Vinashin”. According to Mr. Hjorth, there were some disagreements between Mr. Andersen and Vinashin as well as between him and the local deputy MD. This resulted in almost blocked communication and coordination between the partners.

Mr. Hjorth appreciated Vinashin as “a valuable partner”, by which he meant “a partner from whom we could get a lot of benefits if we handle things in the right way”. He recalled the rationale behind Aalborg Industries’ taking Vinashin as a partner to get “help from a local partner” who “knew everything about Vietnam”. Indeed, Mr. Hjorth was trying to “involve” the partner in joint venture issues, making frequent visits to the Vinashin office in Hanoi and to have meetings with Vinashin leaders, including Ms. Pham. Upon his request, they became helpful in a number of issues, such as handling Aalborg Industries’ discarded manufactured articles, assisting in the recruitment of a chief accountant. In his description of the partner’s contribution, he said, “It is service they are doing... I think it’s a good way to call it service...” and, as a concluding point, “Now we have a much better relationship. We can use them.”

Speaking of the cooperation with Vinashin on the board level, Mr. Hjorth described the board meetings as “the meeting between the two cultures”, and explained the differences he observed with regard to the partners’ expectations. “Vinashin expects rights to control”, he said, “– how many stamps we are using, how many people are sitting there and what they are doing and such things. And we only bring to the board what we think should be brought to the board. It means the results, the strategy, the policies, and nothing more. They want to go down and control invoices, purchases, why did he (this guy) get the job, but not him (that guy), and such things...This is not for the board in our culture. But we know in the Vietnamese culture it is really what they are discussing. So the board meetings sometimes are such things. It should be handled the right way. And when it’s handled the right way, it’s clear that both cultures can understand each other. Sometimes we give the information to the board that we would never agree to do (in Denmark)...”

Moreover, it was not only Vietnamese culture that Mr. Hjorth saw in the partner’s behaviour, but also a “Vinashin culture” as he came into contact with them. As he put it, “I am feeling very much the Vinashin culture when I’m calling Ms. Pham or Ms. Nguyen, my contact person. They are really... they are a state-owned company. And Ms. Pham was trained in Moscow, and we can feel that – she seems (to behave as a manager from) an old system of planned economy ... In their office, it is quite clear when I go there. I’ve been in Poland, and I’ve seen the same office...” In his opinion, such a culture is “not flexible in the modern world” and “must be changed”.

So much was spoken about a Vinashin culture, but for Mr. Hjorth, the joint venture should always be “an Aalborg company”, never “a Vinashin company” for the simple reason that Vinashin as a customer was in competition with other customers buying Aalborg Industries’ boilers worldwide.